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**H.BROTHERS** | ENTERTAINMENT

**華 誼 騰 訊 娛 樂**

**華 誼 騰 訊 娛 樂 有 限 公 司**

**Huayi Tencent Entertainment Company Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 419)**

**ANNOUNCEMENT**

**RELATING TO THE ENTERING INTO OF VIE CONTRACTUAL  
ARRANGEMENTS FOR THE OPERATION OF INTERNET PLATFORM FOR  
PHARMACEUTICAL E-COMMERCE AND SMART HEALTHCARE AND  
MEDICAL SERVICES BUSINESSES**

**THE INVESTMENT FRAMEWORK AGREEMENT AND THE VIE  
CONTRACTUAL ARRANGEMENTS**

The Board is pleased to announce that on 8 October 2021, the Company and HHL (a wholly-owned subsidiary of the Company) entered into the Investment Framework Agreement with the ESOP, the Individuals SPV and the PRC Equity Owners, and pursuant to the Investment Framework Agreement the WFOE will enter into a set of VIE Contractual Arrangements with the OPCO and/or the PRC Equity Owners. These documents are for setting up a joint venture to carry out the businesses of e-commerce in relation to pharmaceutical products, provision of healthcare consultation and management services via the Internet, and provision of smart medical services such as smart healthcare devices and data analysis via the Internet in the PRC through the OPCO, a company incorporated in the PRC.

Through the VIE Contractual Arrangements, the WFOE will have effective control over the finance and operation of the OPCO, and will enjoy the economic interests and benefits generated by the OPCO. Upon the entering into of the VIE Contractual Arrangements, the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group and the OPCO will become an indirect non-wholly owned subsidiary of the Company.

**IMPLICATIONS UNDER THE LISTING RULES**

As all the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Investment Framework Agreement and the Loan Facility Agreement (on an aggregate bases) are less than 5%, transactions contemplated under the Investment Framework Agreement and the Loan Facility Agreement do not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

As a result of the Investment Framework Agreement and the VIE Contractual Arrangements, Ms. DONG Yu will become a substantial shareholder and a director of the Platform Co and the OPCO, each being a subsidiary of the Company, and Mr. YANG Aiwu will become a substantial shareholder of the OPCO, a subsidiary of the Company. Therefore, each of Ms. DONG Yu and Mr. YANG Aiwu will become a connected person of the Company at subsidiary level, and the transactions contemplated under the VIE Contractual Arrangements will constitute continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements but are exempt from the circular, independent financial adviser and shareholders' approval requirement pursuant to Rule 14A.101 of the Listing Rules.

#### **APPLICATION FOR AND CONDITIONS OF WAIVER**

The Company has applied for, and the Stock Exchange has granted a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with the requirement of (i) fixing the term of the VIE Contractual Arrangements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules and (ii) setting a maximum aggregate annual cap for the fees payable to the WFOE under the VIE Contractual Arrangements pursuant to Rule 14A.53 of the Listing Rules, subject to the conditions as set out in more details in this announcement.

### **INTRODUCTION**

The Board is pleased to announce that on 8 October 2021, the Company and HHL (a wholly-owned subsidiary of the Company) entered into the Investment Framework Agreement with the ESOP, the Individuals SPV and the PRC Equity Owners, and pursuant to the Investment Framework Agreement the WFOE will enter into a set of VIE Contractual Arrangements with the OPCO and/or the PRC Equity Owners. These documents are for setting up a joint venture to carry out the businesses of e-commerce in relation to pharmaceutical products, provision of healthcare consultation and management services via the Internet, and provision of smart medical services such as smart healthcare devices and data analysis via the Internet (the “**Principal Businesses**”) in the PRC through the OPCO, a company incorporated in the PRC.

Through the VIE Contractual Arrangements, the WFOE will have effective control over the finance and operation of the OPCO, and will enjoy the economic interests and benefits generated by the OPCO. Upon the entering into of the VIE Contractual Arrangements, the financial results of the OPCO will be consolidated into the consolidated financial statements of the Group and the OPCO will become an indirect non-wholly owned subsidiary of the Company.

### **THE INVESTMENT FRAMEWORK AGREEMENT**

On 8 October 2021, the Company and HHL (a wholly-owned subsidiary of the Company) entered into the Investment Framework Agreement with the ESOP, the Individuals SPV and the PRC Equity Owners for the setting up of a joint venture structure. Pursuant to the Investment Framework Agreement, among other things, (i) the Company shall procure the Platform Co (a wholly-owned subsidiary of the Company) to issue and allot shares to the ESOP and the Individuals SPV, so that the shareholding proportions in the Platform Co will become 60%, 20% and 20% held by the Company, the ESOP and the Individuals SPV respectively, and (ii) HHL shall set up the WFOE, and (iii) the Company shall transfer its 100% equity interest in HHL to the Platform Co so that WFOE as a wholly-owned subsidiary of HHL will be indirectly wholly-owned by the Platform Co.

The purpose of setting up the WFOE is to enter into the VIE Contractual Arrangements with respect to the OPCO. Pursuant to the Investment Framework Agreement, the OPCO is established by the PRC Equity Owners, namely Mr. YANG Aiwu and Ms. DONG Yu, who will hold the equity interest in the OPCO as to 60% and 40% respectively.

## **The Loan Facility Agreement**

Pursuant to the Investment Framework Agreement, on 8 October 2021, the Company (as lender) entered into the Loan Facility Agreement with the PRC Equity Owners (each as borrower), and the Individuals SPV and the ESOP (each as a co-borrower in relation to the loan to Ms. DONG Yu), pursuant to which, among other things, the Company agreed to grant a loan facility of an amount not exceeding RMB8 million and RMB12 million to Ms. DONG Yu and Mr. YANG Aiwu respectively, for the sole purpose of paying up the registered capital in the OPCO subscribed by Ms. DONG Yu and Mr. YANG Aiwu respectively, which can only be drawn when the PRC Equity Owners are required to pay up the registered capital in the OPCO under the relevant laws and regulations or upon request by regulatory authorities. The loan to Ms. DONG Yu shall be repayable upon (i) the receipt by the Individuals SPV and/or the ESOP of any dividend or other income distributed by the Platform Co, HHL, the WFOE and/or the OPCO or consideration from selling equity interest in the Platform Co, HHL, the WFOE and/or the OPCO, or (ii) the receipt by Ms. DONG Yu of any dividend or other income distributed by the Individuals SPV and/or the ESOP or consideration from selling equity interest in the Individuals SPV, the ESOP, the Platform Co, HHL, the WFOE and/or the OPCO. The loan to Mr. YANG Aiwu shall be repayable upon (i) the transfer by Mr. YANG Aiwu of his equity interest in the OPCO to the entity designated by the Company according to the Company's instruction and such designated entity having paid the consideration of such transfer to Mr. YANG Aiwu; (ii) the transfer of his equity interest in the OPCO or relevant assets in accordance with the Exclusive Purchase Right Agreement; or (iii) the winding-up of the OPCO, and any consideration or value received by Mr. YANG Aiwu thereunder shall be repaid to the Company as repayment under the Loan Facility Agreement, with any excess amount of such consideration or value exceeding the loan amount being treated as loan interest payable to the Company while any shortfall of the loan amount exceeding such consideration or value shall be waived by the Company.

## **INFORMATION ON THE VIE CONTRACTUAL ARRANGEMENTS**

### **Background and reasons for the use of the VIE Contractual Arrangements**

In order for the OPCO to carry out the Principal Businesses, which will involve provision of management of electronic prescription, information exchange between doctors and patients, display of medicine information, provision of information about medical and health through Internet platform involving the charging of service fees for the said services, the OPCO will apply for the value-added telecommunications business licenses for information service business (non-App store) (the “ICP License”).

As advised by the PRC Legal Adviser, according to the relevant regulations including the Telecommunication Regulations of the PRC (《中華人民共和國電信條例》) and the Classification Catalogue of Telecommunications Services (《電信業務分類目錄》) and the E-commerce Law (《電子商務法》) of the PRC, the business activities of selling goods or providing services to users through the Internet are regarded as e-commerce, the business of using data and transaction processing application platform connecting to the Internet and providing users with online data processing and transaction processing via the Internet constitutes business of “online data processing and transaction processing (operational e-commerce)”; and the charging of fees through the collection, development and processing of information and development of information platform and provision of information via the Internet constitutes “Internet information service business operating for profit (other than App store)”. Accordingly, the Principal Businesses involve the businesses of online data processing and transaction processing (operational e-commerce) and Internet information service business operating for profit (other than App store). These businesses will be carried out concurrently and are inalienable.

According to the Foreign Investment Law of the PRC (the “**Foreign Investment Law**”) which took effect on 1 January 2020, the State adopts the management systems of pre-establishment national treatment and negative list for foreign investment. Foreign investors shall not invest in any field forbidden by the negative list for access of foreign investment. For any field restricted by the negative list for access of foreign investment, foreign investors shall conform to the investment conditions provided in the negative list. In respect of the business of online data processing and transaction processing businesses (operational e-commerce) of the OPCO, according to the relevant law and regulations as stipulated in the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020) (Order No. 32 of the National Development and Reform Commission and the Ministry of Commerce) (《外商投資准入特別管理措施(負面清單)(2020年版)》(國家發展和改革委員會、商務部令第32號)) (the “**Negative List**”), Notice of the Ministry of Industry and Information Technology on Removing the Restrictions on Foreign Equity Ratios in Online Data Processing and Transaction Processing (Operating E-commerce) Business (No. 196 [2015] of the Ministry of Industry and Information Technology) (工業和信息化部關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告(工信部通信〔2015〕196號)) and the Notice of the Ministry of Industry and Information Technology on Issues Concerning Hong Kong and Macao Service Providers Carrying out Telecommunications Services in the Mainland” No.222 [2016] of the Ministry of Industry and Information Technology (《工業和信息化部關於港澳服務提供者在內地開展電信業務有關問題的通告》(工信部通信〔2016〕222號)) (collectively the “**Notices**”), and the Amendment to the “Mainland and Hong Kong Closer Economic and Trade Relations Arrangement” Trade in Services Agreement” (Ministry of Commerce, Financial Secretary of Hong Kong Special Administrative Region; effective June 1, 2020) (《關於修訂〈內地與香港關於建立更緊密經貿關係的安排〉服務貿易協議的協議》(商務部、香港特別行政區財政司; 2020年6月1日生效)) (the “**Amendment Agreement**”), the setting up of joint ventures in the PRC by foreign investors (including Hong Kong and Macau service providers) to provide the business of value-added telecommunications of online data processing and transaction processing businesses (operational e-commerce) is not subject to any shareholding restriction.

In respect of the Internet information service business operating for profit (other than App store) of the OPCO, according to the Notices and the Amendment Agreement, foreign investors (including Hong Kong and Macau service providers) may set up joint ventures in the PRC to provide the Internet information service businesses operating for profit (other than App store) but are restricted to hold no more than 50% equity interest.

According to the official website of the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), if any holder of the ICP License shall at any time invite foreign investment, such ICP License holder shall disclose such intention and re-apply for the relevant ICP License. As advised by the PRC Legal Adviser, in practice, the relevant government authority would investigate every layer of the shareholding structure of an entity which is applying for or has obtained the ICP License up to and until the ultimate shareholder(s) are revealed to determine whether such entity is regarded as a “foreign investor”.

Meanwhile, as verified and confirmed by the PRC Legal Adviser’s consultation with the Ministry of Industry and Information Technology of the PRC, according to the Regulations on the Administration of Foreign-invested Telecommunications Enterprises (Revised in 2016)” (Order No. 666 of the State Council of the PRC) (《外商投資電信企業管理規定(2016年修訂)》(中華人民共和國國務院令第666號)), a foreign investor who invests in a value-added telecommunications services company (in addition to being subject to the restriction of no more than 50% foreign investment) shall have a good track record and operational experience in providing value-added telecommunications business (the “**Qualification Requirement**”) in the PRC. There are no clear rules, measures, procedures, guidance or reference standard issued



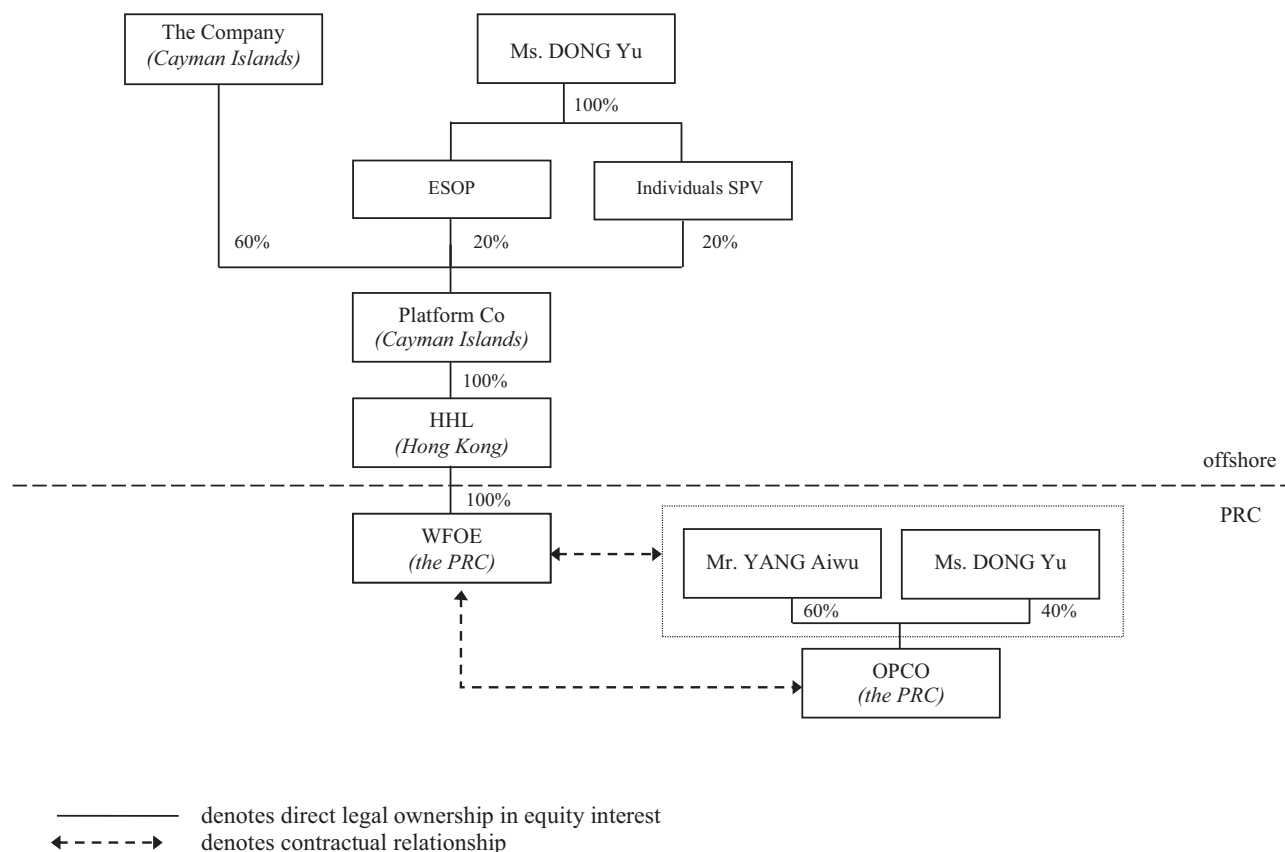
by PRC regulatory authority on the Qualification Requirement. In practice, relevant authority would verify whether such foreign investor has previously been engaged in telecommunications business outside the PRC, or whether such foreign investor has previously held any equity interest in PRC enterprises engaged in the telecommunications business. The Group does not have any actual engagement in telecommunications business in any district or any equity interest in PRC enterprises engaged in the telecommunications business. Therefore, the Company directly or indirectly holding equity interest in the OPCO would make it very difficult and uncertain for the OPCO to obtain the ICP License to carry on the value-added telecommunications business, and the time and the prolonged process of application with unknown results would incur extra costs for the Company.

In view of the above, the PRC Legal Adviser advises that given that the OPCO will carry on the Principal Businesses, in the absence of clear guidance to determine whether the Company meets the Qualification Requirement and in view of the Group's lack of relevant qualification, the Company cannot directly or indirectly hold any equity interest in the OPCO despite its intention to share more than 50% equity interest in the OPCO.

In order to comply with the relevant PRC laws and regulations while achieving the commercial intention of the parties, the VIE Contractual Arrangements will be entered into among the WFOE, the OPCO and the PRC Equity Owners pursuant to the Investment Framework Agreement. Through the VIE Contractual Arrangements, the WFOE will have effective control over the finance and operations of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

## THE VIE STRUCTURE

The following diagram sets out the structure under the Investment Framework Agreement and the VIE Contractual Arrangements:



## Details of the VIE Contractual Arrangements

Principal terms of each of the VIE Contractual Arrangements are set out as follows:

### *(i) Exclusive Business Cooperation Agreement*

- Parties: (1) The WFOE; and  
(2) the OPCO
- Term: Effective for 10 years from the date of execution of the Exclusive Business Cooperation Agreement, unless terminated (i) by the WFOE at any time with 30 days' advance written notice; (ii) upon the transfer of all the equity interest in the OPCO or all the assets of the OPCO to the WFOE or such entity as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement; or (iii) upon the event that it becomes permitted under PRC laws for the WFOE to directly hold the equity interest in the OPCO, and the WFOE or its designated entity has obtained all the equity interest in the OPCO; and automatically renewable for another 10 years unless early terminated by the WFOE.
- The OPCO shall have no right to terminate the Exclusive Business Cooperation Agreement unless the WFOE has committed gross negligence or fraud against the OPCO.
- Subject Matter: The OPCO shall appoint the WFOE as its exclusive service provider to provide the OPCO with comprehensive technical and business support and related consultancy services in relation to the Principal Businesses, including but not limited to:
- (a) supporting services in relation to development and expansion of business and provision of services usually provided by manager, executive officer, management, planning department, business operations, human resources, finance and accounting;
  - (b) formulating all business plans and sales targets and developing corresponding systems and operating procedures;
  - (c) consulting services in relation to development direction, scale and branding;
  - (d) consultation and support in relation to intellectual property rights application;
  - (e) business-related office, manufacturing and sales services;
  - (f) formulating business and sales strategies, receiving customers' orders and providing customer services on behalf of the OPCO;
  - (g) supporting and consulting services in relation to human resources;
  - (h) consulting services in relation to customer data statistics, analysis and development and maintenance of related database;

- (i) provision of software and related technical support;
- (j) guiding and management of the OPCO's operation and management; and
- (k) acquisition of equipment necessary for and development of new technology for the OPCO's business development and expansion.

Without the prior written consent of the WFOE, the OPCO shall not engage in or co-operate with any third party for the provision of the same or similar services contemplated under the Exclusive Business Cooperation Agreement.

The above provisions also apply to subsidiaries of the OPCO.

Fee: The service fee payable for the said services shall be equal to the annual audited consolidated net profits after taxation of the OPCO. The OPCO shall also bear any VAT and additional taxes arising out of the provision of the said services by the WFOE.

**(ii) *Exclusive Purchase Right Agreement***

Parties: (1) The WFOE;  
(2) the PRC Equity Owners; and  
(3) the OPCO

Term: Effective on the date of the execution of the Exclusive Purchase Right Agreement and shall remain effective, unless terminated: (i) by the WFOE at any time with 30 days' advance written notice; (ii) upon the transfer of all the equity interest in the OPCO or all the assets of the OPCO to the WFOE or such entity as designated by the WFOE pursuant to the Exclusive Purchase Right Agreement; or (iii) upon the event that it becomes permitted under PRC laws for the WFOE to directly hold the equity interest in the OPCO, and the WFOE or its designated entity has obtained all the equity interest in the OPCO.

The OPCO and the PRC Equity Owners shall have no right to terminate the Exclusive Purchase Right Agreement unless the WFOE has committed gross negligence or fraud against the OPCO and the PRC Equity Owners.

Subject Matter and Consideration: The PRC Equity Owners and the OPCO shall irrevocably grant the WFOE an exclusive right to purchase or nominate any entity(ies) to purchase at any time all or part of their existing and future equity interest in the OPCO and all or part of the existing and future assets of the OPCO respectively at the lowest price permissible under the PRC laws and regulations when permitted by the then applicable PRC laws in its sole discretion when exercising its right. The consideration to be received by the PRC Equity Owners and/or the OPCO thereunder shall be unconditionally gifted to the WFOE or its designated entity to the extent permitted under applicable PRC laws.

In the event the PRC Equity Owners shall transfer or dispose of their intellectual property rights, the WFOE shall have the right of first refusal to acquire from the PRC Equity Owners those intellectual property rights that are related to the business of the OPCO.

The above provisions also apply to equity interest in, assets and intellectual property rights of subsidiaries of the OPCO.

Undertakings: The PRC Equity Owners and the OPCO shall jointly and severally undertake, among other things, not to sell, transfer, mortgage or otherwise dispose of any equity interest in the OPCO (or its subsidiaries) or any assets, businesses or rights or income of the OPCO (or its subsidiaries).

***(iii) Power of Attorney and Undertaking Letters***

Parties: (1) Each of the PRC Equity Owners; and  
(2) the WFOE

Term: Effective upon execution of the Power of Attorney and Undertaking Letters and shall remain effective until the relevant PRC Equity Owner ceases to hold any equity interest in the OPCO.

Subject Matter: Each of the PRC Equity Owners shall irrevocably agree to entrust the WFOE (or its nominees, including the directors of its shareholders and their successors, including a liquidator replacing such directors) as the exclusive agent to exercise all of his/her rights in relation to his/her equity interest in the OPCO on his/her behalf, including but not limited to the rights to vote in a shareholders' meeting, sign minutes and file documents with the relevant companies registry.

Each of the PRC Equity Owners shall undertake, among other things, that he or she will neither, directly or indirectly (either on its own or through any other individual or legal entity), participate or engage in any business which is or may be in competition with the business of the OPCO or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any material conflict of interest between himself or herself and the WFOE.

Each of the PRC Equity Owners shall also undertake that if he/she receives any dividends, interest, any other forms of capital distributions, residual assets upon liquidation, or proceeds or consideration from the transfer of equity interest as a result of, or in connection with, his/her equity interest in the OPCO, he/she shall, to the extent permitted by applicable laws, remit all such monies or assets (after deducting all taxes and expenses required by the law) to the WFOE or the entity designated by the WFOE without any compensation.



Each of the PRC Equity Owners shall further undertake and warrant that the validity of the Power of Attorney and Undertaking Letter shall not be affected by the death, bankruptcy or divorce of any of the PRC Equity Owners and shall remain valid against any assignees or successors of him/her; and that the successor, guardian, creditor, or spouse of any of the PRC Equity Owners who may be entitled to his/her interests and rights in the OPCO in the event of his/her death, incapacity, bankruptcy, divorce or in the event that the exercise of his/her shareholder rights in the OPCO may be affected, will not perform any actions that may affect or hinder the performance of obligations on the part of such PRC Equity Owner under the VIE Contractual Arrangements.

**(iv) Equity Pledge Agreements**

- Parties: (1) The WFOE (as the pledgee);
- (2) each of the PRC Equity Owners (as the pledgor); and
- (3) the OPCO
- Term: The pledge shall be effective for the period from the date the pledge has been duly registered with relevant administrative authority and until all obligations under the Exclusive Business Cooperation Agreement, Exclusive Purchase Right Agreement and the Power of Attorney and Undertaking Letters and any other agreements supplemental thereto on the part of each of the PRC Equity Owners and/or the OPCO (the “**Secured Obligations**”) have been entirely performed or terminated.
- Subject Matter: Each of the PRC Equity Owners shall agree to pledge all of his/her equity interest in the OPCO to the WFOE as security for the performance of the Secured Obligations. The WFOE may exercise the pledge in the events of default (which include non-performance of the Secured Obligations or the pledgee agreeing or intending to dispose of his/her equity interest in the OPCO without the written consent of the WFOE) on the part of any of the PRC Equity Owners and/or the OPCO.
- Each of the PRC Equity Owners shall undertake to the WFOE, among other things, not to transfer his/her interests in the OPCO and not to create any pledge or third party rights thereon without the WFOE’s prior written consent (other than in performance of the Exclusive Purchase Right Agreement).
- The validity of the Equity Pledge Agreement shall not be affected by the death, bankruptcy or divorce of any of the PRC Equity Owners and shall remain valid against any assignees or successors thereof.

**(v) *Spousal Consent Letters***

Parties: the spouse of each PRC Equity Owner being an individual

Subject Matter: The spouse of each PRC Equity Owner being an individual shall irrevocably agree that all the equity interest held by the relevant PRC Equity Owner in the OPCO and all the benefits generated from these equity interest do not form part of his or her matrimonial property and he/she as the spouse has no rights thereto.

**REASONS FOR AND BENEFITS OF ENTERING INTO OF THE VIE CONTRACTUAL ARRANGEMENTS**

The Group is strenuously developing its strategic layout in the realms of pharmaceutical and medical care services in the PRC, and thus setting up the joint venture in relation to the OPCO to carry out the Principal Businesses. Being one of the world's most promising markets for pharmaceutical and medical care services, the PRC is now full steam ahead with regard to industry digitization in the wake of the implementation of a series of medical and pharmaceutical reforms put forth by the PRC Government.

As discussed under the section headed "INFORMATION ON THE PRC EQUITY OWNERS" in this announcement, Ms. DONG Yu, the director and chief executive officer of the OPCO, possesses extensive experiences and networks in the realms of pharmaceutical and medical care services via the Internet in the PRC. Through the setting up of the joint venture, the Group is effectively recruiting Ms. DONG Yu, an experienced executive with track record and skills in businesses similar to the Principal Businesses, as part of the Group's management team to develop and manage the Principal Businesses. The Company believes that partnering with market talents and industry leaders like Ms. DONG Yu, through the setting up of the joint venture in relation to the OPCO upon the entering into of the Investment Framework Agreement and the VIE Contractual Arrangements, would be an important milestone for the Group's successful development in the pharmaceutical and medical care services via the Internet in the PRC in the long run.

As discussed under the section headed "INFORMATION ON THE VIE CONTRACTUAL ARRANGEMENTS — Background and reasons for the use of the VIE Contractual Arrangements" in this announcement, given that the OPCO will carry on the Principal Businesses, in the absence of clear guidance to determine whether the Company meets the Qualification Requirement and in view of the Group's lack of relevant qualification, the Company cannot directly or indirectly hold any equity interest in the OPCO despite its intention to share more than 50% equity interest in the OPCO.

Considering the above, the Directors believe that the entering into of the Investment Framework Agreement and the VIE Contractual Arrangements are in the interests of the Company and its shareholders as a whole.

## **COMPLIANCE OF THE VIE CONTRACTUAL ARRANGEMENTS WITH PRC LAWS, RULES AND REGULATIONS**

The PRC Legal Adviser, after taken all possible actions or steps to enable it to reach its legal conclusions, is of the following legal opinions:

- (i) the VIE Contractual Arrangements are legal, binding on and enforceable against all the parties thereto. The VIE Contractual Arrangements do not violate the PRC Laws, rules and regulations applicable to the WFOE and the OPCO and their respective businesses or the PRC Civil Code (《中華人民共和國民法典》) and would not be deemed as “concealing illegal intention with a lawful form” and void thereunder. In respect of the Principal Businesses to be carried on by the OPCO, the VIE Contractual Arrangements are not subject to any laws and relevant regulations that disallow foreign investors from using any agreements or contractual arrangements to gain control of or operating a foreign restricted business;
- (ii) the VIE Contractual Arrangements are not in violation of the articles of association of the OPCO;
- (iii) the execution, effectiveness and enforceability of the VIE Contractual Arrangements do not require any consents and/or approvals from any PRC governmental authority, except that the Equity Pledge Agreements are subject to registration requirements with the relevant authorities;
- (iv) save as disclosed in the section headed “RISK AND LIMITATIONS IN RELATION TO THE VIE CONTRACTUAL ARRANGEMENTS” under the heading “Certain terms of the VIE Contractual Arrangements may not be enforceable under the PRC laws” in this announcement, the VIE Contractual Arrangements comply with the PRC laws and are valid thereunder; and
- (v) the VIE Contractual Arrangements are narrowly tailored to achieve the Company’s business purpose and has minimized the potential conflict with relevant PRC laws and regulation.

## **DISPUTES RESOLUTIONS, SUCCESSION AND LIQUIDATION UNDER THE VIE CONTRACTUAL ARRANGEMENTS**

### **Disputes resolutions**

The VIE Contractual Arrangements are governed by and shall be construed in accordance with the PRC laws. Any dispute arising from the VIE Contractual Arrangements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within thirty (30) days, any party may submit the said dispute to the Beijing Arbitration Commission (北京仲裁委員會) in accordance with its arbitration rules. The arbitration tribunal of arbitrators may award any remedies or relief measures including temporary and permanent injunctive relief (such as injunctive relief for the conduct of business or to compel the transfer of assets) in accordance with the provision of the VIE Contractual Arrangements and the applicable PRC laws, and the specific performance of any obligations under the VIE Contractual Arrangements, award remedies over the equity interest and the tangible/intangible assets of the OPCO, prohibition of disposal and an order for the winding up of the OPCO. The results of the arbitration shall be final and binding. In support of the arbitration pending formation of the arbitral tribunal or in appropriate cases, the courts in Hong Kong, the Cayman Islands, the PRC and the location where the OPCO’s principal assets are located shall have the jurisdiction to grant interim remedies over the assets of the OPCO.

## **Succession**

The provisions set out in the VIE Contractual Arrangements are also binding on the successors of the PRC Equity Owner, as if the successors were a signing party to the VIE Contractual Arrangements. Although the VIE Contractual Arrangements do not specify the identity of successors to the PRC Equity Owner, under the Civil Code of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents, and any breach by the successors would be deemed to be a breach of the VIE Contractual Arrangements.

## **Liquidation**

Pursuant to the Exclusive Purchase Right Agreement, in the event of the OPCO's liquidation, dissolution, bankruptcy or termination, each of the PRC Equity Owner shall transfer any assets distributed to such PRC Equity Owner to the WFOE or its designated entity at nil consideration or the lowest price permitted by the PRC laws.

## **Death, bankruptcy and divorce**

Appropriate provisions have been incorporated in the VIE Contractual Arrangements to protect the Group's interests in the event of death, bankruptcy or divorce of the PRC Equity Owners. The VIE Contractual Arrangements have certain provisions which set out that the respective agreement shall be binding on the assignees or successors of the PRC Equity Owners, details of which are set out in the section above headed "Details of the VIE Contractual Arrangements" in this announcement.

## **Conflict of interests**

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the PRC Equity Owners and the Group. In particular, the PRC Equity Owners had undertaken that they will neither, directly or indirectly (either on its own or through any other individual or legal entity), participate or engage in any business which is or may be in competition with the business of the OPCO or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any material conflict of interest between itself and the WFOE.

## **Unwinding the structure under the VIE Contractual Arrangements**

The Company will unwind the structure created as a result of the VIE Contractual Arrangements as soon as the PRC laws allow the Principal Businesses to be operated without such structure, and the WFOE may acquire the equity interest in the OPCO held by the PRC Equity Owners and/or the assets of the OPCO to the extent as permitted by the then applicable PRC laws. In the event the WFOE exercises the right under the Exclusive Purchase Right Agreement to acquire the equity interest in the OPCO held by the PRC Equity Owners and/or the assets of OPCO to unwind the structure under the VIE Contractual Arrangements, the PRC Equity Owners and the OPCO have undertaken to return to the WFOE or its designated entity any consideration received.

## **INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP**

The VIE Contractual Arrangements contain certain provisions in order to exercise effective control over and to safeguard the assets of the OPCO.

In addition to the internal control measures as provided in the VIE Contractual Arrangements, it is the intention of the Company, to implement, through the WFOE, additional internal control measures against the OPCO as appropriate, having regard to the internal control measures adopted by the Group from time to time, which may include but not limited to:

### **Management controls**

- i. the Group will appoint 2 board representatives (the “**Representatives**”) to act as directors of the OPCO. The Representatives are required to conduct regular reviews on the operations of the OPCO and shall submit the semi-annual reviews to the Board. The Representatives are also required to check the authenticity of the monthly management accounts of the OPCO;
- ii. the Representatives shall be actively involved in various aspects of the daily managerial and operational activities of the OPCO;
- iii. the Representatives shall report any major events of the OPCO to the senior management of the Company, who must in turn report to the Board;
- iv. the senior management of the Company shall conduct regular site visits and personnel interviews regarding the OPCO, and shall report to the Board on a regular basis; and
- v. all incorporation documents, all other legal documents and all seals and chops of the OPCO shall be delivered to the WFOE upon request.

### **Financial controls**

- i. the finance department of the Company, led by the Chief Financial Officer (the “**CFO**”), shall collect monthly management accounts, bank statements and cash balances and major operational data of the OPCO for review. Upon discovery of any suspicious matters, the CFO shall report to the Board;
- ii. if the OPCO has been delayed in the payment of the services fees requested by the WFOE, the CFO must meet with the shareholder(s) of the OPCO to investigate, and should report any suspicious matters to the Board. In extreme cases, the registered shareholder(s) of the OPCO will be removed and replaced;
- iii. the OPCO must submit copies of latest bank statements for every bank accounts of the OPCO within 15 days after the end of each month; and
- iv. the OPCO must assist and facilitate the Company to conduct on-site internal audit.



## Legal review

- i. the senior management of the Company will consult the Company's PRC legal adviser from time to time to check if there are any legal developments in the PRC affecting the arrangement contemplated under the VIE Contractual Arrangements, and determine if any modification or amendment are required to be made;
- ii. as part of the internal control measures, major issues arising from implementation and performance of the VIE Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than twice a year. The Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist the Group to deal with specific issues arising from the VIE Contractual Arrangements;
- iii. matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by the Board on a regular basis which will be no less frequent than twice a year; and
- iv. the relevant business units and operation divisions of the Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of the Company on the compliance and performance conditions under the VIE Contractual Arrangements and other related matters.

## RISKS AND LIMITATIONS IN RELATION TO THE VIE CONTRACTUAL ARRANGEMENTS

**There is no assurance that the VIE Contractual Arrangements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the VIE Contractual Arrangements do not comply with applicable regulations**

Despite there is currently no indication that the VIE Contractual Arrangements will be interfered or objected to by any PRC regulatory authorities, there is a possibility that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the VIE Contractual Arrangements comply with the current PRC laws or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the VIE Contractual Arrangements.

### *Development of Foreign Investment Law in the PRC*

On 15 March 2019, the National People's Congress approved the Foreign Investment Law, which came into effect on 1 January 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law (中華人民共和國中外合資經營企業法), the Sino-foreign Cooperative Joint Venture Enterprise Law (中華人民共和國中外合作經營企業法) and the Wholly Foreign-invested Enterprise Law (中華人民共和國外資企業法), together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to unify the corporate legal requirements for both foreign and domestic investments and by way of having a Negative List. The Negative List, which shall be issued and amended by or upon approval by the State Council from time to time, refers to special administrative measures for access of foreign investment in specific fields in PRC. A foreign investor shall not invest in any field prohibited from foreign investment under the Negative List.

A foreign investor shall meet the investment conditions stipulated under the Negative List for any restricted fields under the Negative List. For fields not mentioned in the Negative List, domestic and foreign investments shall be treated equally. However, while the Foreign Investment Law stipulates different forms of investment as foreign investment, it does not explicitly stipulate the structure of the VIE Contractual Arrangements as a form of foreign investments, neither does it explicitly prohibit or restrict a foreign investor to rely on the structure of the VIE Contractual Arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. Instead, it includes a catch-all provision to the definition of foreign investment so that foreign investment, by its definition, includes “foreign investor makes investment in any other way stipulated under laws or administrative regulations or provisions of the State Council” without elaboration on the meaning of “other way”.

### ***The Potential Impact of the Foreign Investment Law on the Target Group***

It is possible that contractual control arrangement (including the VIE Contractual Arrangements) will be regarded as foreign investment under the aforesaid limb of “foreign investor makes investment in any other way stipulated under laws or administrative regulations or provisions of the State Council” or the State Council or other authorities may prescribe new laws, administration regulations or provisions or exercise to provide for the same or exercise its broad discretion of interpretation to the same effect. Whether the contractual control arrangements will be found or deemed to be in violation of the foreign investment access requirements and how the contractual control arrangements will be handled in such scenarios are uncertain. Therefore, it may be possible that the VIE Contractual Arrangements and the OPCO’s business will be adversely affected in the future due to the development and changes in PRC laws and regulations.

### ***Measures adopted by the Target Group to mitigate against any potential risk arising from the Foreign Investment Law***

The Foreign Investment Law does not contain a concrete guidance to deal with the contractual arrangements. As such, the Board will monitor the implementation of the Foreign Investment Law and discuss with the PRC Legal Adviser on a regular basis in order to assess any possible impact arising from the implementation of the Foreign Investment Law on the VIE Contractual Arrangements and the business operation of the Target Group. In case there would be material and adverse effect on the Target Group or the business of the Target Group arising from the Foreign Investment Law, the Company will timely publish announcements in relation to (i) any amendments to or interpretations of the Foreign Investment Law; and (ii) any material impact of the Foreign Investment Law on the Target Group’s operations and financial position.

**The VIE Contractual Arrangements may not be as effective as direct ownership in providing control over the OPCO**

The WFOE will rely on the VIE Contractual Arrangements to operate the business of the OPCO. Such contractual arrangement may not be as effective in providing the WFOE with control over the OPCO as direct ownership. If the WFOE has direct ownership of the OPCO, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of the OPCO, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the VIE Contractual Arrangements, the Group will only rely on the WFOE's contractual rights and the performance by the PRC Equity Owners of their obligations under the VIE Contractual Arrangements to exercise control over the OPCO. Therefore, the VIE Contractual Arrangements may not be as effective in ensuring the WFOE's control over the OPCO as direct ownership would be. In addition, if the PRC Equity Owners or the OPCO fail to perform their respective obligations under the VIE Contractual Arrangements or otherwise have disputes with the WFOE, the WFOE may have to initiate arbitration or other legal proceedings and rely on legal remedies under PRC laws which may be limited and involve significant uncertainty. There can be no assurance that the outcome will be in the WFOE's favour and it may adversely affect the WFOE's ability to control the OPCO Group.

**The PRC Equity Owners may potentially have a conflict of interests with the Group**

The Group's control over the OPCO is based on the contractual arrangements under the VIE Contractual Arrangements. Therefore, conflict of interests of the PRC Equity Owners will adversely affect the interests of the Company. However, under the VIE Contractual Arrangements, the PRC Equity Owners will irrevocably appoint any person as designated by the WFOE (including its liquidator, if any) as their representative to exercise the voting rights of the shareholders of the OPCO. Therefore, it is unlikely that there will be potential conflict of interests between the Company and such PRC Equity Owners. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Company will consider removing and replacing the registered shareholders of the OPCO.

**The VIE Contractual Arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed**

Under the laws and regulations of PRC, arrangements and transactions may be subject to audit and/or challenge by the PRC tax authorities. The Group may face material adverse tax consequences if the PRC tax authorities determine that the VIE Contractual Arrangements does not represent arm's length negotiations between the parties and they may adjust income and expenses of the WFOE and/or the Target Group for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or the Target Group. The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of the WFOE and/or Target Group increase significantly or if they are required to pay interest and other penalties on late payments.

### **Economic risks the Group bears as the primary beneficiary of the Target Group, financial support to the Target Group and potential exposure of the Group to losses**

As the primary beneficiary of the Target Group, the Group will share both profit and loss of the Target Group and bear economic risks which may arise from difficulties in the operation of the Target Group's businesses. The Group may have to provide financial support in the event of financial difficulty of the Target Group. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the Target Group and the need to provide financial support to it. In any event, since the Group conducts the Principal Businesses through the OPCO, its financial results would be reflected in the Group's consolidated financial statements and the Group's consolidated financial position such as the consolidated earnings and profits may be adversely affected.

### **Limitations in acquiring ownership in the equity interest of the OPCO**

In case the WFOE exercises its option to acquire all or part of the equity interest in the OPCO under the Exclusive Purchase Right Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under applicable PRC laws. In addition, the aforementioned acquisitions may be subject to the permissible minimum price (such as an appraised value for the equity interest in the OPCO) or other limitations as imposed by applicable PRC laws. Further, a substantial amount of other costs (if any), and time may be involved in acquiring and transferring the ownership of the OPCO, which may have a material adverse impact on the WFOE and/or the OPCO's businesses, prospects and profitability.

### **Certain terms of the VIE Contractual Arrangements may not be enforceable under the PRC laws**

The VIE Contractual Arrangements provide that the arbitration tribunal of the PRC may award remedies over the equity interest or assets of the OPCO or injunctive relief (such as injunctive relief for the conduct of business or to compel the transfer of assets) or order the winding up of the OPCO. The VIE Contractual Arrangements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, the Cayman Islands, the PRC, and the location where the OPCO's principal assets are located. However, the PRC Legal Adviser is of the view that pursuant to the PRC laws, the arbitration tribunal may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the OPCO. In addition, even though the VIE Agreements provide that overseas courts (e.g., courts in Hong Kong and the Cayman Islands) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC laws. As a result, in the event that the OPCO or any of the PRC Equity Owners breaches the terms of the VIE Contractual Arrangements, the WFOE may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the OPCO could be materially and adversely affected.

**The Company does not have any insurance which covers the risks relating to the VIE Contractual Arrangements and the transactions contemplated thereunder**

The insurance of the Group does not cover the risks relating to the VIE Contractual Arrangements and the transactions contemplated thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Contractual Arrangements in the future, such as those affecting the enforceability of the VIE Contractual Arrangements and the relevant agreements for the transactions contemplated thereunder and the operation of VIE Contractual Arrangements, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will continue evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the VIE Contractual Arrangements.

**CONSOLIDATION OF THE FINANCIAL RESULTS OF THE OPCO**

The financial results of the OPCO will be consolidated into the financial statements of the Group under the prevailing accounting principles upon entering into of the VIE Contractual Arrangements.

On the basis of the aforesaid confirmation and pursuant to Rule 1.01 of the Listing Rules, the Company further confirms that the OPCO will be a non-wholly owned subsidiary of the Company.

**THE BOARD'S VIEW ON THE VIE CONTRACTUAL ARRANGEMENTS**

Based on the above, the Board (including the independent non-executive Directors) is of the view that:

- (i) the VIE Contractual Arrangements are narrowly tailored to achieve the Company's business purpose and has minimized the potential conflict with relevant PRC laws and regulations;
- (ii) the VIE Contractual Arrangements enable the WFOE to gain control over the OPCO and to be entitled to the economic interests and benefits of the OPCO;
- (iii) as advised by the PRC Legal Adviser, save as aforementioned, the VIE Contractual Arrangements are enforceable under the relevant PRC laws and regulations,
- (iv) the VIE Contractual Arrangements will provide a mechanism that enables the WFOE to exercise effective control over the OPCO; and
- (v) the VIE Contractual Arrangements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole.

As none of the Directors have a material interest in the transactions contemplated under the VIE Contractual Arrangements, none of the Directors have abstained from voting on the relevant Board resolutions.

To the best knowledge, information and belief of the Directors, having made all reasonable enquires, as at the date of announcement, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business.



## **INFORMATION ON THE TARGET GROUP**

The OPCO is a company established under the laws of the PRC with limited liability in July 2021. As at the date of this announcement, the OPCO is held as to 60% and 40% by Mr. YANG Aiwu and Ms. DONG Yu (being the PRC Equity Owners) respectively. The OPCO will be principally engaged in the business of e-commerce in relation to pharmaceutical products, provision of healthcare consultation and management services via the Internet, and provision of smart medical services such as smart healthcare devices and data analysis via the Internet, and will apply for the relevant ICP License.

## **INFORMATION ON THE PRC EQUITY OWNERS**

Ms. DONG Yu is the director and the chief executive officer of the OPCO and is responsible for overseeing the strategy, management and operation of the Principal Businesses of the OPCO. Ms. DONG Yu was introduced to the Target Group by Mr. YUEN Hoi Po, the Chief Executive Officer of the Company and an executive director of the Company.

Ms. DONG Yu possesses extensive experiences and networks in the realms of pharmaceutical and medical care services via the Internet in the PRC through her 15-year tenure in one of the largest groups operating in Internet regime in the PRC, especially focusing on the field of medical and healthcare services. She has held various key positions including head of medical and healthcare services business division, head of the government relations department in charge of major projects and activities cooperated with governments, and sales planning manager of B2B business division, accumulating extensive experience in the fields of product research and design, e-commerce operation, marketing operation and strategic planning.

Mr. YANG Aiwu is an employee of the Group in the PRC since year 2011. Mr. YANG Aiwu is not and will not be a director of or involved in the management of the OPCO, the WFOE, HHL or the Platform Co.

## **INFORMATION ON THE ESOP AND THE INDIVIDUALS SPV**

As at the date of this announcement, the ESOP and the Individuals SPV are wholly-owned by Ms. DONG Yu and are principally engaged in investment holding. The shareholding interest in the ESOP is intended to be transferred to individuals for the purpose of an employee incentive program to benefit the employees of the Platform Co, HHL, the WFOE and/or the OPCO.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the PRC Equity Owners, the OPCO, the ESOP and the Individuals SPV and their respective ultimate benefits owners are Independent Third Parties as at the date of entering into of the Investment Framework Agreement and the VIE Contractual Arrangements.

## **INFORMATION ON THE GROUP**

The Group is principally engaged in (i) entertainment and media business; and (ii) provision of healthcare and wellness services. The Platform Co (a company incorporated in the Cayman Islands) and HHL (a company incorporated in Hong Kong) are each principally engaged in investment holding. The WFOE (a company incorporated in the PRC) was newly established and has not yet conducted any business activity except for the entering into of the VIE Contractual Arrangements.

## **IMPLICATIONS UNDER THE LISTING RULES**

As all the applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the Investment Framework Agreement and the Loan Facility Agreement (on an aggregate bases) are less than 5%, transactions contemplated under the Investment Framework Agreement and the Loan Facility Agreement do not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

As a result of the Investment Framework Agreement and the VIE Contractual Arrangements, Ms. DONG Yu will become a substantial shareholder and a director of the Platform Co and the OPCO, each being a subsidiary of the Company, and Mr. YANG Aiwu will become a substantial shareholder of the OPCO, a subsidiary of the Company. Therefore, each of Ms. DONG Yu and Mr. YANG Aiwu will become a connected person of the Company at subsidiary level, and the transactions contemplated under the VIE Contractual Arrangements will constitute continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements but are exempt from the circular, independent financial adviser and shareholders' approval requirement pursuant to Rule 14A.101 of the Listing Rules.

## **OPINION OF THE INDEPENDENT FINANCIAL ADVISER**

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

The Independent Financial Adviser is of the opinion that (in the case of the Exclusive Business Cooperation Agreement) a longer period of 10 years (which is automatically renewable for another 10 years) and (in certain cases under the Market VIE Contractual Arrangements (as defined below)) a longer period without fixed term, is required for the VIE Contractual Arrangements to allow the Group to enjoy the economic benefits under the contractual arrangements as long as the VIE Contractual Arrangements are effective; and it is a normal business practice for agreements of this type to be of such duration.

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

- (i) the Group is principally engaged in (i) entertainment and media business; and (ii) provision of healthcare and wellness services. The Group is strenuously developing its strategic layout in the realms of pharmaceutical and medical care services in the PRC, and thus setting up the joint venture in relation to the OPCO to carry out the Principal Businesses.

The Company directly or through its affiliate holding 60% equity interest in the OPCO will not be in compliance with the relevant PRC laws and regulations concerning the Principal Businesses. In order to comply with the relevant PRC laws and regulations, the VIE Contractual Arrangements were entered into among the WFOE, the OPCO and the PRC Equity Owners;

- (ii) Ms. DONG Yu, the director and chief executive officer of the OPCO, possesses extensive experiences and networks in the realms of pharmaceutical and medical care services via the Internet in the PRC. The Company believes that partnering with market talents and industry leaders like Ms. DONG Yu, through the setting up of the joint venture in relation to the OPCO upon the entering into of the Investment Framework Agreement and the VIE Contractual Arrangements, would be an important milestone for the Group's successful development in the pharmaceutical and medical care services via the Internet in the PRC in the long run;
- (iii) it is not uncommon for foreign company to enter into similar arrangements, such as the VIE Contractual Arrangements, in order to comply with the relevant laws and regulations in the PRC to conduct businesses which require ICP License. Through the VIE Contractual Arrangements, the WFOE, will have effective control over the finance and operations of the OPCO despite the lack of registered equity ownership;
- (iv) the VIE Contractual Arrangements will provide long-term binding contractual relationship which the Company will be able to enjoy the future economic interests and benefits derived from the OPCO while complying with the relevant laws and regulations; and
- (v) having identified and reviewed not less than 10 announcements and/or prospectus issued by companies listed on the Stock Exchange with arrangements similar to VIE Contractual Arrangements relating to the ICP License (the "**Market VIE Contractual Arrangements**"). The Independent Financial Adviser considered the Market VIE Contractual Arrangements to be an appropriate reference for general market practice, and noted that out of the Market VIE Contractual Arrangements, five of which are without a fixed term and the remaining have a term ranged from five years to 10 years.

## APPLICATION FOR AND CONDITIONS OF WAIVER

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with the requirement of (i) fixing the term of the VIE Contractual Arrangements for a period of not exceeding three years pursuant to Rule 14A.52 of the Listing Rules and (ii) setting a maximum aggregate annual cap for the fees payable to the WFOE under the VIE Contractual Arrangements pursuant to Rule 14A.53 of the Listing Rules, subject to the following conditions:

- i. ***No change without independent non-executive Directors' approval:*** Save for any mandatory change required under applicable laws and regulations, no changes to the terms of any of the VIE Contractual Arrangements will be made without the approval of the independent non-executive Directors.
- ii. ***Economic Benefits Flexibility:*** The VIE Contractual Arrangements shall continue to enable the Platform Co and thus the Group to receive the economic benefits derived by the OPCO and its subsidiaries, through (i) the potential right of the WFOE and the Group (if and when so allowed under the applicable PRC laws) to acquire the entire equity interest in and/or assets of the OPCO at the minimum purchase price permissible under the then applicable PRC laws and regulations, (ii) the business structure under which the audited consolidated net profits generated by the OPCO and its subsidiaries is retained by WFOE and the Group (such that no annual caps shall be set on the amount of the services fees payable to the WFOE under the Exclusive Business Cooperation Agreement), and (iii) the right of WFOE and the Group to control the management and operation of, as well as, in substance, all of the voting rights of the OPCO.

- iii. ***Renewal and reproduction:*** On the basis that the VIE Contractual Arrangements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on the one hand, and the OPCO and its subsidiaries, on the other hand, such framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business in the PRC as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Company's shareholders, on substantially the same terms and conditions as those of the VIE Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of the Group that the Company may establish upon renewal and/or reproduction of the VIE Contractual Arrangements will be treated as the connected persons of the Company, and transactions between these connected persons and the Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. (OPCO and its subsidiaries, and such other new wholly foreign owned enterprise or operating company (including branch company) which are or will be subsidiaries of the Company shall not however be connected persons of the Company.) This condition is subject to relevant PRC laws, regulations and approvals from the relevant PRC authorities.
- iv. ***Ongoing Reporting and Approvals:*** the Group will disclose details relating to the VIE Contractual Arrangements on an ongoing basis as follows:
- (1) The VIE Contractual Arrangements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules;
  - (2) The independent non-executive Directors will review the VIE Contractual Arrangements annually and confirm in the Company's annual report for the relevant year that the transactions carried on during such year have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the VIE Contractual Arrangements on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole;
  - (3) The Company's auditors will carry out review procedures annually on the transactions carried on pursuant to the VIE Contractual Arrangements and will provide a letter to the Directors with a copy to the Stock Exchange confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions under the VIE Contractual Arrangements (i) have not been approved by the Board; and (ii) were not entered into, in all material respects, in accordance with the VIE Contractual Arrangements governing the transactions;
  - (4) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the OPCO and each of its subsidiaries will be treated as the Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the OPCO or its subsidiaries and their respective associates (as defined in the Listing Rules) (excluding for this purpose, the OPCO and its subsidiaries) will be treated as the Company's connected persons at subsidiary level. As such, the transactions between these connected persons and the Group (including for this purpose, the OPCO and its subsidiaries), other than those under the VIE Contractual Arrangements, will be subject to the requirements under Chapter 14A of the Listing Rules; and

- (5) The OPCO undertakes that, during the term of the relevant VIE Contractual Arrangements, it will provide the Group's management and the Company's auditors with full access to its relevant records, and (where applicable) relevant records of its subsidiaries, for the purpose of the Company's auditors' review on the continuing connected transactions.
- v. ***No changes without independent shareholders' approval:*** Except as described in condition (iii) above, and except for changes to the terms of the VIE Contractual Arrangements in connection with any change in the PRC Equity Owners or their respective shareholding proportion in the OPCO or any mandatory change required under applicable laws and regulations, no changes to the terms of the VIE Contractual Arrangements will be made without the approval of the Independent Shareholders.

## DEFINITIONS

In this announcement, unless the context otherwise requires or unless otherwise defined, the following terms shall have the following meanings:

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| “Amendment Agreement”                      | has the meaning ascribed to it under the section headed “INFORMATION ON THE VIE CONTRACTUAL ARRANGEMENTS — Background and reasons for the use of the VIE Contractual Arrangements” in this announcement   |
| “Board”                                    | the board of Directors  |
| “Company”                                  | Huayi Tencent Entertainment Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (Stock Code: 419)   |
| “connected persons”                        | has the meaning as ascribed to it under the Listing Rules   |
| “continuing connected transaction(s)”      | has the meaning ascribed to it under the Listing Rules  |
| “Director(s)”                              | the director(s) of the Company  |
| “ESOP”                                     | Top Crest Ventures Limited (鼎冠創投有限公司), a company incorporated in the British Virgin Islands with limited liability  |
| “Equity Pledge Agreements”                 | the two equity pledge agreements (股權質押協議) between the WFOE, the OPCO and each of the PRC Equity Owners respectively, details of which are set out under the section headed “Details of the VIE Contractual Arrangements — (iv) Equity Pledge Agreements” in this announcement |
| “Exclusive Business Cooperation Agreement” | the exclusive business cooperation agreement (獨家業務諮詢合作協議) between the WFOE and the OPCO, details of which are set out under the section headed “Details of the VIE Contractual Arrangements — (i) Exclusive Business Cooperation Agreement” in this announcement              |



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|--------------------------------------|---|
| “Exclusive Purchase Right Agreement” | the exclusive purchase right agreement (獨家購買權協議) between the WFOE, the PRC Equity Owners and the OPCO, details of which are set out under the section headed “Details of the VIE Contractual Arrangements — (ii) Exclusive Purchase Right Agreement” in this announcement   |
| “Foreign Investment Law”             | has the meaning ascribed to it under the section headed “INFORMATION ON THE VIE CONTRACTUAL ARRANGEMENTS — Background and reasons for the use of the VIE Contractual Arrangements” in this announcement   |
| “Group”                              | the Company and its subsidiaries  |
| “HHL”                                | Heartily Health Limited (柏悦健康有限公司), a company incorporated in Hong Kong with limited liability and a subsidiary of the Company  |
| “Hong Kong”                          | the Hong Kong Special Administrative Region of the PRC  |
| “ICP License”                        | has the meaning ascribed to it under the section headed “INFORMATION ON THE VIE CONTRACTUAL ARRANGEMENTS — Background and reasons for the use of the VIE Contractual Arrangements” in this announcement   |
| “Independent Shareholders”           | shareholders of the Company other than those who have material interests in the continuing connected transactions under the VIE Contractual Arrangements  |
| “Independent Third Party(ies)”       | independent third party(ies) who is/are, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, independent of the Company and the connected person(s) of the Company  |
| “Individuals SPV”                    | Ever Merit Ventures Limited (永績創投有限公司), a company incorporated in the British Virgin Islands with limited liability   |
| “Investment Framework Agreement”     | the investment framework agreement (合資框架協議) dated 8 October 2021 and entered into among the Company, HHL, the Individuals SPV, the ESOP and the PRC Equity Owners for the setting up of the joint venture structure with respect to the WFOE  |
| “Listing Rules”                      | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Loan Facility Agreement”            | the agreement in the form set out as an appendix to the Investment Framework Agreement dated 8 October 2021 and entered into among the Company, the PRC Equity Owners, the Individuals SPV and the ESOP, which provides for the grant of loan facilities by the Group to each of the PRC Equity Owners for the purpose of potential requirement for capital contributions to the OPCO |

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| “Negative List”                              | has the meaning ascribed to it under the section headed “INFORMATION ON THE VIE CONTRACTUAL ARRANGEMENTS — Background and reasons for the use of the VIE Contractual Arrangements” in this announcement   |
| “Notices”                                    | has the meaning ascribed to it under the section headed “INFORMATION ON THE VIE CONTRACTUAL ARRANGEMENTS — Background and reasons for the use of the VIE Contractual Arrangements” in this announcement   |
| “OPCO”                                       | Hangzhou Mengge Health Technology Co., Ltd. (杭州蒙哥健康科技有限公司), a company incorporated in the PRC with limited liability  |
| “Platform Co”                                | Meerkat Health Holdings Limited, a company incorporated in the Cayman Islands with limited liability and a subsidiary of the Company  |
| “Power of Attorney and Undertaking Letters”  | the two Power of Attorney and Undertaking Letters (授權委託書及承諾函) to be granted by each of the PRC Equity Owners respectively in favour of the WFOE, details of which are set out under the section headed “Details of the VIE Contractual Arrangements — (iii) Power of Attorney and Undertaking Letters” in this announcement   |
| “PRC”  | the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan   |
| “PRC Equity Owners”                          | collectively, Mr. YANG Aiwu and Ms. DONG Yu   |
| “PRC Legal Adviser”                          | the legal adviser to the Company as to the PRC laws   |
| “Principal Businesses”                       | has the meaning ascribed to it under the section headed “INTRODUCTION” in this announcement   |
| “Qualification Requirement”                  | has the meaning ascribed to it under the section headed “INFORMATION ON THE VIE CONTRACTUAL ARRANGEMENTS — Background and reasons for the use of the VIE Contractual Arrangements” in this announcement   |
| “Red Sun” or “Independent Financial Adviser” | Red Sun Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to explain why the VIE Contractual Arrangements require a longer period and to confirm that it is normal business practice for agreements of such type to be of such duration |

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| “Representatives”              | has the meaning ascribed to it under the section headed “INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP — Management controls” in this announcement  |
| “Secured Obligations”          | has the meaning ascribed to it under the section headed “Details of the VIE Contractual Arrangements — (iv) Equity Pledge Agreements” in this announcement   |
| “Stock Exchange”               | The Stock Exchange of Hong Kong Limited  |
| “Spousal Consent Letters”      | the spousal consent letters (配偶同意函) to be issued by the spouse of each of the PRC Equity Owners respectively, details of which are set out under the section headed “Details of the VIE Contractual Arrangements — (v) Spousal Consent Letters” in this announcement |
| “Target Group”                 | the OPCO and its subsidiaries (if any)   |
| “VIE Contractual Arrangements” | collectively, the Exclusive Business Cooperation Agreement, the Exclusive Purchase Right Agreement, the Power of Attorney and Undertaking Letters, the Equity Pledge Agreements and the Spousal Consent Letters  |
| “WFOE”                         | Hangzhou Yuexiang Health Technology Co., Ltd. (杭州悦響健康科技有限公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company   |
| “%”                            | per cent   |

By Order of the Board  
**Huayi Tencent Entertainment Company Limited**  
**HAU Wai Man, Raymond**  
*Company Secretary*

Hong Kong, 8 October 2021

*As at the date of this announcement, the Board comprises:*

*Executive directors: Mr. CHENG Wu (Vice Chairman), Mr. YUEN Hoi Po (Chief Executive Officer)*

*Independent non-executive directors: Dr. WONG Yau Kar David, GBS, JP, Mr. YUEN Kin, Mr. CHU Yuguo*