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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)

**CONNECTED TRANSACTIONS
CAPITAL INCREASE AGREEMENT OF
AND DISPOSALS OF INTEREST IN
SHAANXI YIZHINUO INFORMATION TECHNOLOGY COMPANY LIMITED
PROPOSED AMENDMENTS TO
THE CAPITAL INCREASE AND ACQUISITION AGREEMENT**

**THE YZN CAPITAL INCREASE AGREEMENT AND THE YZN SHAREHOLDERS'
AGREEMENT**

Reference is made to the announcement of the Company dated 7 April 2021 as supplemented by the announcements of the Company dated 21 April 2021, 17 May 2021, 20 December 2021, 12 July 2022 and 20 July 2022 on companies principally engaged in the business of online retail platform for prescription drugs in the PRC.

The Board is pleased to announce that, on 18 April 2023, the Company, entered into the YZN Capital Increase Agreement with YZN, the OPCO, the WFOE, Ms. Han Lihui, the Founding Shareholders and the New Investor, pursuant to which the New Investor has conditionally agreed to make a capital contribution in total of RMB40,000,000 in cash to YZN, based on the valuation of the Target Group at RMB600,000,000 before the completion of the YZN Capital Increase (or RMB640,000,000 after the completion of the YZN Capital Increase). Such RMB640 million valuation of the Target Group after completion of the YZN Capital Increase represents an approximately 2.6-times increase in value comparing to the implied value as reflected by the Group's incurred and committed investment costs up to present of RMB90 million for a 51% interest in the Target Group.

In conjunction with the YZN Capital Increase and subject to the New Investor having made payment of the First Instalment to YZN, the Target Group Reorganisation will be carried out, by which YZN will become the holding company of the OPCO and in turn OPCO will become 100% owned by YZN (to form the YZN Group), in order that the New Investor will be acquiring equity interest in YZN (the principal revenue generating entity) as the holding company of the YZN Group.

Upon completion of the YZN Capital Increase, the New Investor will be interested in approximately 6.25% of the enlarged equity interest in YZN and the Group's interest in YZN will be diluted from 51% to approximately 47.81%. Subsequent to the completion of the YZN Capital Increase and by no later than 31 December 2024, the Group, Mr. WANG Jian and Ms. SHANG Jing will respectively transfer approximately 1.63%, 0.60% and 0.58% equity interests in YZN to the Employees Shareholding Platform as part of an incentive measure to the employees of the YZN Group provided for under the YZN Capital Increase Agreement, following which the Group's percentage interest in YZN will be further reduced to approximately 46.18%. YZN will continue to be an indirect non-wholly owned subsidiary of the Company and the financial results of OPCO and YZN and its subsidiaries will continue to be consolidated into the consolidated financial statements of the Group.

On the date of execution of the YZN Capital Increase Agreement, YZN, WFOE, the Company, the Ordinary Shareholders and the New Investor also entered into the YZN Shareholders' Agreement which will take effect as from the Registration Date, to (among others) make provisions for the management and administration of YZN's affairs, and to grant the Repurchase Right to the New Investor under which the New Investor may require YZN to repurchase all or part of its equity interest under certain circumstances.

The Ordinary Shareholders and YZN shall use all endeavours to achieve the initial public offering of YZN on a reputable securities exchange within 60 months from the Registration Date.

PROPOSED AMENDMENTS TO THE CAPITAL INCREASE AND ACQUISITION AGREEMENT

After the Closing Day and following completion of the Target Group Reorganisation, there will be certain amendments to the Capital Increase and Acquisition Agreement (as amended by the Third Supplemental Agreement), whereby all the terms in relation to the First Performance Target, the Second Performance Target and the Further Acquisition will be abolished.

LISTING RULES IMPLICATIONS

The YZN Capital Increase will result in the shareholding held by the Group in YZN to decrease from 51% to 47.81% and thus constitute a deemed disposal by the Group under Rule 14.29 of the Listing Rules. The transfer by the Group of approximately 1.63% equity interest in YZN to the Employees Shareholding Platform after completion of the YZN Capital Increase also constitutes a disposal by the Group. All of the applicable percentage ratios in respect of the deemed disposal under the YZN Capital Increase and the transfer of equity interest in YZN to Employees Shareholding Platform in aggregate exceed 0.1% but are below 5%, the disposals by the Group of interest in YZN under the YZN Capital Increase Agreement do not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules.

The Repurchase Right (as one of the terms in the YZN Shareholders' Agreement) constitutes an option granted by YZN (a subsidiary of the Company) to the New Investor, the exercise of which is not at the Group's discretion. Under Rule 14.74 of the Listing Rules, the transaction for the acquisition of the Repurchase Equity Interest from the New Investor is classified as if the Repurchase Right had been exercised upon grant of such right. All of the applicable percentage ratios in respect of the Repurchase Right are more than 0.1% but below 5%.

According to Rule 14.24 of the Listing Rules, in the case of a transaction involving both an acquisition and a disposal, the transaction will be classified by reference to the larger of the percentage ratios for the acquisition or the disposal. Based on the aforesaid, the transactions contemplated under the YZN Capital Increase Agreement and the YZN Shareholders' Agreement do not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, each of Mr. WANG Jian and Ms. SHANG Jing (two of the Founding Shareholders) is a director and a substantial shareholder of a subsidiary of the Company (i.e. the OPCO) and is therefore a connected person of the Company at the subsidiary level. Accordingly, the transactions contemplated under the YZN Capital Increase Agreement and the YZN Shareholders' Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) have approved the YZN Capital Increase Agreement and the YZN Shareholders' Agreement and the transactions contemplated thereunder and have confirmed that the terms are fair and reasonable, such transactions are on normal commercial terms and in the interests of the Company and its shareholders as a whole. Accordingly, pursuant to Rule 14A.101 of the Listing Rules, the transactions of the Company under the YZN Capital Increase Agreement and the YZN Shareholders' Agreement are subject only to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 7 April 2021 as supplemented by the announcements of the Company dated 21 April 2021, 17 May 2021, 20 December 2021, 12 July 2022 and 20 July 2022 on the companies principally engaged in the business of online prescription, circulation and marketing of pharmaceutical products, namely 平潭心伴門診部有限公司 (Pingtan Xinban Clinic Company Limited) and 陝西醫智諾信息科技有限公司 (Shaanxi Yizhinuo Information Technology Company Limited).

The Board is pleased to announce that, on 18 April 2023, the Company entered into the YZN Capital Increase Agreement with the New Investor, YZN, the OPCO, the WFOE, Ms. Han Lihui and the Founding Shareholders, pursuant to which the New Investor has conditionally agreed to make a capital contribution in total of RMB40,000,000 in cash to YZN based on the valuation of the Target Group at RMB600,000,000 before the completion of the YZN Capital Increase (or RMB640,000,000 after the completion of the YZN Capital Increase). Upon completion of the YZN Capital Increase, the New Investor will be interested in approximately 6.25% of the enlarged total equity interest in YZN and the Group's interest in YZN will be diluted from 51% to approximately 47.81%.

The principal terms of the YZN Capital Increase Agreement are set out below:

THE YZN CAPITAL INCREASE AGREEMENT

Date : 18 April 2023

Parties : (i) the Company;
(ii) YZN;
(iii) OPCO;
(iv) WFOE;
(v) the Founding Shareholders;
(vi) Ms. Han Lihui; and
(vii) the New Investor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the New Investor and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Subject matter : the New Investor has conditionally agreed to make a capital contribution in total of RMB40,000,000 in cash to the registered capital and the capital reserve of YZN in return for an approximately 6.25% of the enlarged equity interest in YZN. Among the total capital contribution of RMB40,000,000, RMB2,047,647 will be applied to the registered capital of YZN and RMB37,952,353 will be applied to the capital reserve of YZN.

The Company, the Founding Shareholders and Ms. Han Lihui have agreed to waive their rights of first refusal to subscribe for the YZN Capital Increase.

Terms of Payment of
the Consideration

: First Instalment

The New Investor will pay the capital contribution of RMB24,000,000 to the designated bank account of YZN, within 15 working days from the day all of the conditions in the section under the sub-heading “Conditions precedent” have been fulfilled below (the “**Closing Day**”).

Second Instalment

The New Investor will pay the capital contribution of RMB16,000,000 to the designated bank account of YZN, within 15 working days from the fulfilment of the condition that the place of registration of YZN being changed to Zhangjiagang, Jiangsu Province of the PRC.

Conditions Precedent

: Completion of payment of the First Instalment of the YZN Capital Increase shall be conditional upon satisfaction (or waiver by the Investor at its absolute discretion) of the following conditions precedent:

- (1) the YZN Capital Increase Agreement and the YZN Shareholders’ Agreement having been executed;
- (2) all duly executed transactions documents and the transactions contemplated under the YZN Capital Increase Agreement having obtained the permission, consent, approval and authorization from any third parties necessary for the completion of the transactions as contemplated under the YZN Capital Increase Agreement (including but not limited to the shareholders’ resolution of YZN);
- (3) all representations and warranties made by YZN and the Ordinary Shareholders in the YZN Capital Increase Agreement remaining correct in all material respects;
- (4) save where disclosure is made, all information in the forms of agreement, documents and other written documents provided by YZN and the Ordinary Shareholders in relation to the transactions contemplated under the YZN Capital Increase Agreement are true, without omissions or false statements; and

- (5) there being no pending action or proceeding by any government authority in the PRC to restrict or prohibit the completion of the transactions as contemplated under the YZN Capital Increase Agreement and no PRC governmental authority has formulated laws, rules or regulations that can make the YZN Capital Increase Agreement become unlawful.

Undertakings by YZN, the Ordinary Shareholders, WFOE and Ms. Han Lihui after the Closing Day

After the Closing Day and subject to the New Investor having made payment of the First Instalment to YZN, YZN, the Ordinary Shareholders, WFOE and Ms. Han Lihui undertake to complete (among others) the following:

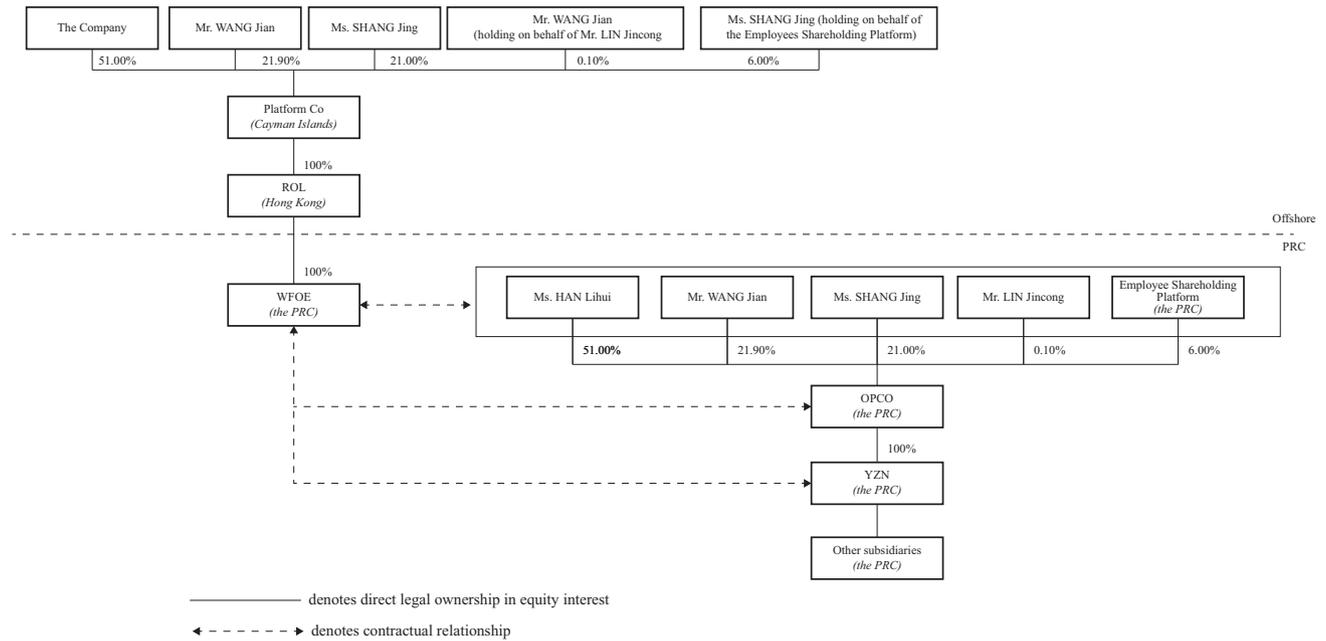
- complete the various steps of the Target Group Reorganisation (as defined in the section under the sub-heading “The Target Group Reorganisation” below)
- complete the registration of the New Investor as the holder of 6.25% equity interest in YZN within 7 working days after the corporate structure of YZN being the holding company of the OPCO (i.e. the YZN Group) having been formed under the Target Group Reorganisation
- full settlement by the Company of the Second Cash Investment of RMB39,000,000 in cash pursuant to the Capital Increase and Acquisition Agreement (as amended by the Third Supplemental Agreement) within 10 working days from the completion of the Target Group Reorganisation to be injected as capital reserve of YZN
- for the purpose of realizing the initial public offering of YZN:
 - (i) change of the place of registration of the future listed entity (namely, YZN) to Zhangjiagang, the PRC.
 - (ii) unwinding the current VIE structure of the Target Group within a reasonable period of time and in compliance with relevant PRC laws and regulations.
 - (iii) no later than 31 December 2024, transfer by the WFOE, Mr. WANG Jian and Ms. SHANG Jing in aggregate (pro-rata to their relative shareholding percentages in YZN) to the Employees Shareholding Platform amounting to 3% of the total equity interests in YZN (before considering the effect of the YZN Capital Increase) for nil consideration. For such arrangement, WFOE, Mr. WANG Jian and Ms. SHANG Jing will transfer approximately 1.63%, 0.60% and 0.58% respectively of the total equity interest in YZN (as enlarged by the YZN Capital Increase) to the Employees Shareholding Platform no later than 31 December 2024.

(iv) upon completion of the Target Group Reorganisation, abolish all the terms in relation to the Further Acquisition, the First Performance Target and the Second Performance Target under the Capital Increase and Acquisition Agreement (as amended by the Third Supplemental Agreement).

- in the event YZN confirms that any of the steps of the Target Group Reorganisation cannot be completed, YZN shall refund to the New Investor the amount of capital contribution paid by the New Investor plus interest at 5% per annum from the date of receipt of payment of the capital contribution up to the date of refund.

The Target Group Reorganisation

The current corporate structure concerning the OPCO and YZN is set out as follows:

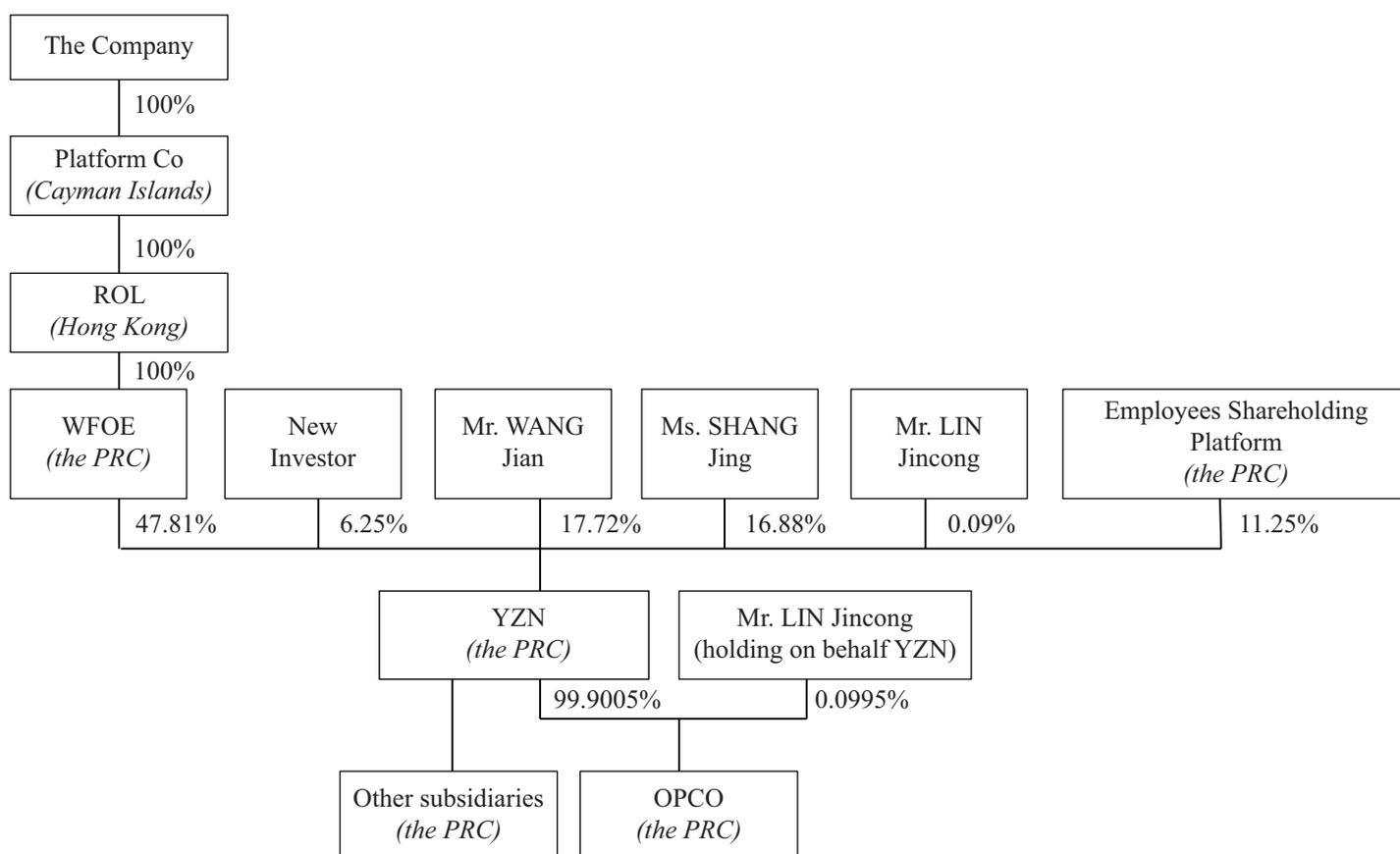


In conjunction with the YZN Capital Increase, the Company, YZN, WFOE, Ms. Han Lihui and the Founding Shareholders undertake that, subject to the New Investor having made payment of the First Instalment to YZN, a reorganisation of the Target Group will be carried out, by which YZN will become the holding company of the OPCO and in turn OPCO will become 100% owned by YZN (to form the YZN Group), in order that the New Investor will be acquiring equity interest in YZN (the principal revenue generating entity) as the holding company of the YZN Group (the “**Target Group Reorganisation**”). The Target Group Reorganisation to be carried out will involve:

- swapping of equity interests in YZN held by OPCO with the equity interests in OPCO held by Ms. Han Lihui and the Founding Shareholders, so that OPCO will become wholly-owned by YZN, and entering into of a new set of VIE contractual arrangements in respect of YZN to replace the VIE Contractual Arrangements;
- in the process of the above swapping, transfer of 3% equity interests in YZN (before considering the effect of YZN Capital Increase) by each of Mr. WANG Jian and Ms. SHANG Jing to the Employees Shareholding Platform;

- in the process of the above swapping, WFOE becoming the direct holder of less-than-50% equity interest in YZN at certain stage, which is allowed under applicable PRC laws, as the Qualification Requirement which prevented the Company from directly or indirectly holding any equity interest in the OPCO or YZN has ceased to be in effect;
- unwinding of the new VIE contractual arrangements in respect of YZN following completion of registration of the New Investor as the holder of 6.25% equity interest in YZN (given that the Group's percentage economic interest in YZN will have been diluted from 51% to approximately 47.81%, the Group as a foreign investor directly holding below 50% in YZN is allowed under relevant PRC laws and regulations related to the Principal Businesses, and thus there would be no further need for VIE contractual arrangement in respect of the YZN Group at that stage).

The corporate structure concerning YZN and OPCO as a result of the carrying out of the Target Group Reorganisation is set out as follows:



The Group will comply with the applicable requirements under the Listing Rules in respect of the Target Group Reorganisation when the Target Group Reorganisation is carried out.

Basis for Determination of the Consideration

The amount of the YZN Capital Increase of RMB40,000,000 representing 6.25% of the total equity interests in YZN (as enlarged by the YZN Capital Increase), as the amount of investment agreed to be made by the New Investor under the YZN Capital Increase Agreement, is based on the valuation of the Target Group at RMB600,000,000 before the completion of the YZN Capital Increase (or RMB640,000,000 after the completion of the YZN Capital Increase) which was negotiated and agreed on an arm's length basis among the parties to the YZN Capital Increase Agreement with reference to, among others, the following factors:

- the long-term industry growth rate and prospects of the internet healthcare businesses, especially the business of online prescription, circulation and marketing of pharmaceutical products in which the Target Group is principally engaged;
- the latest business performances and development of the Target Group;
- the revenue and gross profit of the Target Group amounting to HK\$608,218,000 and HK\$335,657,000 respectively for the year ended 31 December 2022;
- the more-than-16-times increase in revenue of the Target Group for the year ended 31 December 2022 comparing to that for the year ended 31 December 2021;
- the customer base of the Target Group which includes a number of large pharmaceutical companies in the PRC;
- in preparation for an initial public offering by YZN, the transfer of approximately 1.63%, 0.60% and 0.58% of the total equity interest in YZN (as enlarged by the YZN Capital Increase) from the WFOE, Mr. WANG Jian and Ms. SHANG Jing, respectively, to the Employees Shareholding Platform no later than 31 December 2024 as an incentive to employees of the YZN Group; and
- the reasons and benefits as stated under the section headed “Reasons for and Benefits of the YZN Capital Increase” below.

THE YZN SHAREHOLDERS' AGREEMENT

On the date of execution of the YZN Capital Increase Agreement, YZN, WFOE, the Company, the Ordinary Shareholders and the New Investor also entered into the YZN Shareholders' Agreement which will take effect as from the Registration Date, to make provisions for (among others) the management and administration of YZN's affair. The principal terms of the YZN Shareholders' Agreement are set out below:

Board composition and specific operational matters

The board of directors of YZN shall comprise 7 directors, of which one director shall be appointed by the New Investor, 4 directors shall be appointed by WFOE and 1 director shall be appointed by each of Mr. WANG Jian and Ms. SHANG Jing respectively.

The following matters of YZN may only be approved by two-thirds or more of the directors of YZN present at the meeting of the board of directors of YZN (which shall include the directors appointed by WFOE and by the New Investor):

- (1) proposals for transactions outside ordinary course of business with the shareholders or directors of YZN or their associated parties;
- (2) YZN terminating or changing its principal businesses or carrying out new business unrelated to its principal businesses;
- (3) formulating any share incentive scheme by way of issue of new shares;
- (4) equity financing related actions, including (but not limited to) issue of shares or equity linked securities, or redemption or repurchase of any shares or equity linked securities;
- (5) capital reorganization (including increase of capital or reduction of registered capital), liquidation, dissolution or termination of business, etc;
- (6) decision on listing of YZN, choosing the sponsor and securities exchange and approving the valuation for listing application.

Certain operational matters including appointment of senior management and approval of their remuneration, external investment, borrowings, providing guarantee, pledge or loans, acquisition of and creation of encumbrance over significant assets, formulation of operation, investment and business plans, distribution of profits and declaration of dividends shall, prior to resolution by the board of directors of YZN passed by more than 50% of the directors of YZN present, fully consider the views of the New Investor.

Distribution of Profits

YZN shall not distribute dividends prior to the Registration Date. After the Registration Date, if the shareholders of YZN approve distribution of profits of YZN, such dividends shall be distributed among the shareholders of YZN according to their respective shareholding percentages after the completion of the YZN Capital Increase.

Initial public offering

The Ordinary Shareholders and YZN shall use all endeavours to achieve the initial public offering of YZN on a reputable securities exchange (namely the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Science and Technology Innovation Board of the Shanghai Stock Exchange, the Stock Exchange, the New York Stock Exchange and National Association of Securities Dealers Automated Quotations (NASDAQ)) (“**Qualified IPO**”) within 60 months from the Registration Date.

Repurchase Right of the New Investor

Upon the happening of the earlier of the following:

- (1) YZN fails to complete a Qualified IPO or fails to be entirely acquired within 60 calendar months from the Registration Date;
- (2) YZN or the Ordinary Shareholders having seriously breach the terms of the YZN Capital Increase Agreement or the YZN Shareholders' Agreement or seriously infringes applicable laws or regulations of the PRC, and have not carried out remedy measures within 10 working days of request by the Investor Shareholders;

the New Investor may by way of written notice require YZN to repurchase all or part of its equity interest held in YZN (the "**Repurchase Equity Interest**") in cash at the price being the investment amount paid by the New Investor corresponding to the Repurchase Equity Interest, plus interest at 10% per annum on such amount from the date of payment up to the date of repurchase ("**Repurchase Right**").

If YZN does not have sufficient cash or assets to pay the New Investor the price for the Repurchase Equity Interest, Mr. WANG Jian and Ms. SHANG Jing shall compensate the New Investor (up to the value of their equity interests in YZN) by way of disposal of their equity interest in YZN or seeking a third party to acquire the Repurchase Equity Interest.

Liquidation Preference

In the event of liquidation, dissolution or termination of YZN (whether voluntary or not), the remaining proceeds from disposition of the assets of YZN after deduction of liquidation expenses, employees' salaries, social security expense and statutory compensation amounts, outstanding tax payments and repayment of debts (the "**Distributable Assets**") shall be distributed according to the following priority:

- (1) the Investor Shareholders shall have priority over the Ordinary Shareholders to receive payment of the highest of (A) 100% of the investment amounts paid by the Investor Shareholders plus all declared and unpaid dividends to which the Investor Shareholders shall be entitled; (B) the investment amounts paid by the Investor Shareholders multiplied by $(1+10\% \times T)$ minus all dividends received by the Investor Shareholders (where T is the number of years and the pro-rata part of an incomplete year from the date of payment of the investment amounts by the Investor Shareholders to the date of receipt of the liquidation distribution); and (C) the shareholding proportion of the Investor Shareholders in YZN in the Distributable Assets;
- (2) if the Distributable Assets is insufficient to pay the amount under (1) in full, the Distributable Assets shall be shared by the Investor Shareholders in accordance with their shareholding proportion in YZN relative to each other; and
- (3) any amounts of the Distributable Assets remaining after payment of the amounts under (1) and (2) above, if any, shall be distributed among the Ordinary Shareholders according to their shareholding proportion in YZN relative to each other.

Pre-emption Rights

Prior to a Qualified IPO, if YZN plans an increase of its registered capital or carry out new financing, the Investor Shareholders shall have pre-emption rights to subscribe for all or part of the new registered capital according to their respective shareholding percentage in YZN. Any remaining increase in registered capital of YZN not subscribed for by the Investor Shareholders shall be available for subscription by the other shareholders of YZN.

Arrangements regarding Disposals of Equity Interests in YZN and Rights of first refusal and co-sale of the Investor Shareholders

The Ordinary Shareholders may not without the prior consent of the Investor Shareholders transfer, pledge or in any other way deal with their shareholdings in YZN. In any event, the price at which the Ordinary Shareholders transfer equity interests in YZN to transferee(s) other than the Investor Shareholders shall not be lower than the per unit subscription costs of the New Investor. Subject to the aforesaid, prior to a Qualified IPO, if an Ordinary Shareholder transfers or in any other way deal with all or part of his or her equity interests in YZN, the Investor Shareholders shall have the rights of first refusal to acquire such equity interests on the same proposed terms according to their respective shareholding percentage in YZN.

If the Investor Shareholders do not exercise their right of first refusal to acquire the equity interests being disposed of by an Ordinary Shareholder, they shall have the right to co-sell their equity interests in YZN on the same terms proposed by the Ordinary Shareholder in the portion of the equity interest proposed to be disposed of according to its percentage shareholding in YZN.

Notwithstanding the above, prior to a Qualified IPO, if a third party makes an offer to acquire any equity interests in YZN which fulfills the following conditions:

- (i) the offer occurs after 31 December 2023;
- (ii) the offer is for a proposed acquisition of more than 33% of the shareholding in YZN; and
- (iii) the valuation of YZN under such offer is not lower than RMB4,000,000,000

the Investor Shareholders shall have priority over the Ordinary Shareholders to dispose of all or part of their equity interests in YZN. Where more than one Investor Shareholder proposes to sell equity interests in YZN under the offer and their aggregate shareholding to be disposed of exceeds the total shareholding proposed to be acquired, the sale of equity interests by the Investor Shareholders shall be allocated according to their respective shareholding percentages in YZN.

Anti-dilution rights

In the event of further increase of capital or issue of convertible securities by YZN at a price lower than the respective per unit investment costs of the Investor Shareholders, then the per unit investment costs of the Investor Shareholders shall be adjusted to become equal to the subscription price, by way

of transfer of necessary amount of equity interests in YZN by Mr. WANG Jian and Ms. SHANG Jing to the Investor Shareholders at a nominal consideration to achieve the shareholding proportions in YZN after such adjustments.

Non-compete Undertakings

Mr. WANG Jian and Ms. SHANG Jing undertake to the Investor Shareholders:

- (i) that they shall devote all their time and energy towards YZN, and will use their best endeavors to promote the development of YZN and obtain benefits for YZN, until at least one year after a Qualified IPO or sale of all or an absolute majority of the equity interests in or significant assets or business of YZN;
- (ii) during their terms of offices in YZN and for the period of (i) two years after Mr. WANG Jian and Ms. SHANG Jing cease to directly or indirectly hold any interest in YZN or its subsidiaries; or (ii) two years after Mr. WANG Jian and Ms. SHANG Jing cease to hold any office in YZN, Mr. WANG Jian and Ms. SHANG Jing shall and shall procure and guarantee that the directors of YZN (apart from those nominated by the Investor Shareholders), general manager and deputy general manager of YZN shall during their term of office and for two years thereafter, strictly observe the prohibitions against engagement in competing business by directors and senior management under the Companies Law of the PRC, and shall not (without the prior written consent of the Investor Shareholders) directly or indirectly hold any interest in or provide any consultation or advisory services to any entity that is engaged in any business that competes with the YZN and its subsidiaries; and
- (iii) that any personnel working for YZN that directly or indirectly holds equity interests in YZN shall not work part time in any other entities, and shall devote all of their time and energy towards the operations of YZN.

REASONS FOR AND BENEFITS OF THE YZN CAPITAL INCREASE

The Group entered into the Capital Increase and Acquisition Agreement (as further supplemented by its subsequent supplemental agreements) in April 2021 to acquire a 51% interest in the Target Group. Up to the date of this announcement, the total investment cost incurred and committed by the Group for the 51% interests in the Target Group amounted to approximately RMB90 million, comprising cash payments and contributions of RMB79 million and issuance of new shares of the Company of value equivalent to RMB11 million. During the past two years, the Target Group has grown rapidly and has successfully built up the businesses of digital marketing services and circulation of prescribed pharmaceutical products, and had generated revenue of approximately HK\$606 million for the year ended 31 December 2022. In order to further support the long-term growth of the Target Group, management of the Company considered that it is currently the appropriate timing to introduce a new financial investor to the Target Group.

The Company considers that the YZN Capital Increase has the following benefits:

- (1) provision of new capital of RMB40 million for further development of its businesses carried out by the YZN Group;

- (2) provision of additional government, business and networking resources from the New Investor;
- (3) realization of an enhanced entity value of the Target Group at RMB640 million after completion of the YZN Capital Increase, representing an approximately 2.6-times increase in value comparing to the implied value as reflected by the Group's incurred and committed investment costs up to present of RMB90 million for a 51% interest in the Target Group;
- (4) although the equity interests in the Target Group owned by the Group will be diluted to less than 50% (of the YZN Group) upon completion of the YZN Capital Increase, the Group will still retain control over the operations of the YZN Group. The Group will continue to treat the YZN Group as its subsidiaries, and accordingly the financial results of the YZN Group will continue to be consolidated into the Group's consolidated financial statements; and
- (5) the terms of the YZN Capital Increase set out the intention and goal of achieving a Qualified IPO, which may potentially further enhance the value of the interests held by the Group in the YZN Group.

The abolishing of the terms in relation to the Further Acquisition, the First Performance Target and the Second Performance Target under the Capital Increase and Acquisition Agreement (as amended by the Third Supplemental Agreement) upon completion of the Target Group Reorganisation means that the Company will no longer be subject to the obligations of the issue of the Second Consideration Shares and the Third Consideration Shares, payment of the remainder of RMB11 million of Second Cash Investment and the whole of Third Cash Investment, the Further Acquisition, and the issue of the Fourth Consideration Shares, the Fifth Consideration Shares and the Sixth Consideration Shares. The Company considers such amendments to the Capital Increase and Acquisition Agreement (as amended by the Third Supplemental Agreement) is an appropriate and advantageous change for the Group's investment in the Target Group, in view that the Company will be released from its remaining outstanding obligations under the Capital Increase and Acquisition Agreement (as amended by the Third Supplemental Agreement) and taking into account the abovementioned benefits of the YZN Capital Increase.

Considering the above, the Directors (including the independent non-executive Directors) believe that the YZN Capital Increase Agreement and the YZN Shareholders' Agreement are on normal commercial terms, and although the transactions of the YZN Capital Increase Agreement and the YZN Shareholders' Agreement are not in the ordinary and usual course of business of the Group, their terms are fair and reasonable and the entering into of the YZN Capital Increase Agreement and the YZN Shareholders' Agreement by the Group is in the interests of the Company and its shareholders as a whole.

Financial Impact upon completion of the YZN Capital Increase

Upon completion of the YZN Capital Increase, the equity interests in the Target Group owned by the Group will be diluted from 51% to approximately 47.81%. Upon the completion of the transfer by the Group of approximately 1.63% equity interest in YZN (as enlarged by the YZN Capital Increase) to the Employees Shareholding Platform which is expected to take place no later than 31 December 2024, the percentage interests in the YZN Group owned by the Group will be further reduced to approximately

46.18%. However, the Group will still retain control over the operations of the YZN Group, therefore the Group will continue to treat the YZN Group as subsidiaries of the Group and accordingly, the financial statements of the YZN Group will continue to be consolidated into the Group's consolidated financial statements.

Pursuant to the relevant provisions in the Hong Kong Financial Reporting Standards, taking into account the Repurchase Right and the liquidation preference as mentioned under the section headed "THE YZN SHAREHOLDERS' AGREEMENT" above, the capital injection of RMB40 million from the New Investor will be treated as a financial liability on the Group's consolidated financial statements. As such, it is expected there will be no significant gain or loss to be recognized by the Group following completion of the YZN Capital Increase.

The proceeds from the YZN Capital Increase are intended to be applied towards development of the businesses carried on by the YZN Group.

INFORMATION ON THE TARGET GROUP

The Target Group is principally engaged in the business of online prescription, circulation and marketing of pharmaceutical products, which include the provision of services such as electronic prescription circulation, online platform for patients to purchase pharmaceutical products, charging suppliers of pharmaceutical products for platform usage, structured management channel for suppliers of pharmaceutical products/medical devices (which mainly comprise pharmaceutical manufacturers), providing them with the services of personnel communication management, digital marketing, information resources management, product management, personnel management, online healthcare seminars and other services, which involve the charging of service fees for the information and other services provided on the Online Platform.

Set out below are the financial information of the Target Group for the two financial years ended 31 December 2022:

	For the year ended 31 December 2022	For the year ended 31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	606,218	36,150
Net loss before taxation	58,502	57,756
Net loss after taxation	58,502	57,756

The unaudited net asset value of the Target Group as of 31 December 2022 was approximately HK\$17,064,000.

The above figures are included in the audited consolidated financial statements of the Group for the year ended 31 December 2022 and 2021 respectively.

INFORMATION ON THE GROUP

The Group is principally engaged in (i) online prescription, circulation and marketing of pharmaceutical products; (ii) smart healthcare services platform; (iii) entertainment and media business; and (iv) provision of healthcare and wellness services.

INFORMATION ON THE NEW INVESTOR

The New Investor is a limited partnership enterprise established under the laws of the PRC and is principally engaged in equity investment, investment management, asset management, technology promotion and application services in the form of private equity funds. The New Investor is currently operated and managed by Shanghai Rongyi Capital Investment Management Co., Ltd.* (上海融翼投資管理有限公司) which acts as the general partner of the New Investor and holds 5% of the partnership interest of the New Investor. Zhangjiagang Huangsipu Enterprise Management Co., Ltd.* (張家港市黃泗浦企業管理有限公司), as the sole limited partner of the New Investor, holds 95% of the partnership interest of the New Investor. The sole shareholder of Zhangjiagang Huangsipu Enterprise Management Company Limited is Zhangjiagang High-tech Zone Investment Holding Company Limited* (張家港高新區投資控股有限公司), an investment holding company which is a PRC wholly state-owned company in Zhangjiagang City of the PRC.

LISTING RULES IMPLICATIONS

The YZN Capital Increase will result in the shareholding held by the Group in YZN to decrease from 51% to approximately 47.81% and thus the YZN Capital Increase constitutes a deemed disposal by the Group under Rule 14.29 of the Listing Rules. The transfer by the Group of approximately 1.63% equity interest in YZN to the Employees Shareholding Platform after completion of the YZN Capital Increase also constitutes a disposal by the Group. All of the applicable percentage ratios in respect of the deemed disposal under the YZN Capital Increase and the transfer of equity interest in YZN to the Employees Shareholding Platform in aggregate is below 5%.

The Repurchase Right constitutes an option granted by YZN (a subsidiary of the Company) to the New Investor, the exercise of which is not at the Group's discretion. Pursuant to Rule 14.74 of the Listing Rules, the transaction for the grant of the Repurchase Right to the New Investor is classified as if the Repurchase Right had been exercised upon grant of such right. All of the applicable percentage ratios in respect of the acquisition of the Repurchase Equity Interest upon exercise of the Repurchase Right are more than 0.1% and below 5%.

According to Rule 14.24 of the Listing Rules, in the case of a transaction involving both an acquisition and a disposal, the transaction will be classified by reference to the larger of the percentage ratios for the acquisition or the disposal. Based on the aforesaid, the transactions contemplated under the YZN Capital Increase Agreement do not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, each of Mr. WANG Jian and Ms. SHANG Jing (two of the Founding Shareholders) is a director and a substantial shareholder of a subsidiary of the Company (i.e. the OPCO) and is therefore a connected person of the Company at the subsidiary level. Accordingly,

the transactions contemplated under each of the YZN Capital Increase Agreement and the YZN Shareholders' Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) have approved the YZN Capital Increase Agreement and the transactions contemplated thereunder and have confirmed that the terms are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole. Accordingly, pursuant to Rule 14A.101 of the Listing Rules, the YZN Capital Increase Agreement and the transactions contemplated thereunder are subject only to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the transactions contemplated by the YZN Capital Increase Agreement and the YZN Shareholders' Agreement, and no Director was required to abstain from voting on the resolutions of the Board approving the YZN Capital Increase Agreement and the YZN Shareholders' Agreement.

DEFINITIONS

In this announcement, unless the context requires otherwise, capitalized terms shall bear their respective meanings as defined in the aforesaid announcements of the Company dated 7 April 2021 and 20 December 2021 and the following terms shall have the following meanings:

“Closing Day”	as defined in the sub-section headed “Terms of Payment of the Consideration” — “First Instalment” under the section headed “THE YZN CAPITAL INCREASE AGREEMENT” of this announcement
“Distributable Assets”	as defined in the sub-section headed “Liquidation preference” under the section headed “THE YZN SHAREHOLDERS' AGREEMENT” of this announcement
“First Instalment”	as defined in the sub-section headed “Terms of Payment of the Consideration” under the section headed “THE YZN CAPITAL INCREASE AGREEMENT” of this announcement
“Investor Shareholders”	WFOE and the New Investor as shareholder of YZN after the Target Group Reorganisation
“New Investor”	張家港翼唐股權投資合夥企業(有限合夥) (Zhangjiagang Yitang Equity Investment Partnership (Limited Partnership)*), a limited partnership enterprise established under the laws of the PRC
“Ordinary Shareholders”	collectively, Mr. WANG Jian, Ms. SHANG Jing, Mr. Lin Jincong and the Employees Shareholding Platform as shareholders of YZN after the Target Group Reorganisation
“Qualified IPO”	as defined in the sub-section headed “Initial public offering” under the section headed “THE YZN SHAREHOLDERS' AGREEMENT” of this announcement

“Registration Date”	the date of registration of the New Investor as the holder of 6.25% equity interest in YZN pursuant to the YZN Capital Increase
“Repurchase Equity Interest”	as defined in the sub-section headed “Repurchase Right of the New Investor” under the section headed “THE YZN SHAREHOLDERS’ AGREEMENT” of this announcement
“Repurchase Right”	as defined in the sub-section headed “Repurchase Right of the New Investor” under the section headed “THE YZN SHAREHOLDERS’ AGREEMENT” of this announcement
“Second Instalment”	as defined in the sub-section headed “Terms of Payment of the Consideration” under the section headed “THE YZN CAPITAL INCREASE AGREEMENT” of this announcement
“Target Group Reorganisation”	as defined in the sub-section headed “Target Group Reorganisation” under the section headed “THE YZN CAPITAL INCREASE AGREEMENT” of this announcement
“Third Supplemental Agreement”	the third supplemental agreement to the Capital Increase and Acquisition Agreement entered into on 12 July 2022, particulars of which are disclosed in the announcement of the Company dated 12 July 2022
“YZN Capital Increase”	the capital contributions of RMB40,000,000 in YZN by the New Investor pursuant to the YZN Capital Increase Agreement
“YZN Capital Increase Agreement”	the capital increase agreement entered into among the Company, YZN, the OPCO, the WFOE, Ms. Han Lihui, the Founding Shareholders and the New Investor on 18 April 2023, pursuant to which New Investor has conditionally agreed to make a capital contribution in total of RMB40,000,000 in cash to YZN
“YZN Group”	YZN with OPCO as its subsidiary, together with other subsidiaries of YZN after completion of the Target Group Reorganisation

By Order of the Board
Huayi Tencent Entertainment Company Limited
YUEN Hoi Po
Executive Director and Chief Executive Officer

Hong Kong, 18 April 2023

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

* *For identification purpose only*