

## CONNECTED TRANSACTIONS

Upon [REDACTED], transactions between members of our Group and our connected persons will constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

### OVERVIEW

Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Sinovation Ventures will hold more than 10% of the voting right in our enlarged share capital, and thus will be our connected person. We entered into a framework service agreement on [●], 2022 with Sinovation Ventures, the performance of which will continue after [REDACTED], thus constitute a continuing connected transaction of our Company under Chapter 14 of the Listing Rules upon [REDACTED].

### SUMMARY OF THE TRANSACTION

Name of the Transaction	Applicable Listing Rules	Waiver Sought	Proposed Annual Caps for the Year Ending December 31 (RMB in thousand)		
			2022	2023	2024
NON-EXEMPT CONTINUING CONNECTED TRANSACTION					
Image Detection Technology Service Framework Agreement . . . . .	14A.34, 14A.35, 14A.49 to 14A.59, 14A.71, 14A.105	Waiver from announcement requirement	3,500	4,500	6,000

### NON-EXEMPT CONTINUING CONNECTED TRANSACTION

#### Image Detection Technology Service Framework Agreement

##### *Parties:*

Our Company; and

Sinovation Ventures

##### *Principal terms*

We entered into a framework agreement with Sinovation Ventures (the “**Image Detection Technology Service Framework Agreement**”) on [●], 2022, pursuant to which our Group will provide customized image detection technology services including development, operation and maintenance of automatic machine learning image detection platforms, to Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a customer designated by Sinovation Ventures (the “**Designated Customer**”). To improve its operational efficiency and promote its digitalized business process, the Designated Customer began to establish business relationship with us in 2020. The Designated Customer requires a large number of sales management personnel covering regions where its products are sold to inspect the retail points of sale, and review the sales performance on a regular basis, which resulted in a large amount of labor costs. The image detection technology could assist the Designated Customer to efficiently screen the displayed products and analyze the percentage of displayed products of the Designated Customer and its competitors and respective prices

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in retail points of sales, so that the Designated Customer could conveniently track the sales performance on a real-time basis, and thus improve the inspection efficiency, strengthen supervision, and reduce the inspection costs.

The initial term of the Image Detection Technology Service Framework Agreement will commence on the [REDACTED] and end on December 31, 2024, and can be renewed upon its expiry as agreed by the parties to the agreement.

Subject to the general principles as set out in the Image Detection Technology Service Framework Agreement, separate underlying agreements will be entered into which will set out the details of the services provided, price, payment method and other details of the service arrangements. The definitive terms of each of such agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm’s length negotiation between the parties.

### *Reasons for the transaction*

The Designated Customer is a leading dairy enterprise listed on the Shanghai Stock Exchange (stock code: 600887). As a listed company, it has in place an internal policy for selection of suppliers, considering such factors including length of operational period, amount of registered capital, independence, its current business relationship with the Designated Customer’s competitor, profitability and industry knowledge. Although we fulfill the requirements of amount of registered capital, independence of the Designated Customer and its competitors, and industry knowledge based on our technical capabilities, due to our relatively short operation history, we have not met the requirements of the length of operational period and profitability, but Sinovation Ventures has met all the requirements set out by the Designated Customer. Established in November 2011, Sinovation Ventures is a platform for supporting business startups and technology innovation, primarily engaged in providing entrepreneurial services including consultation and financing for startups, and fund management outsourcing services. Sinovation Ventures recognized profit of approximately RMB28.9 million for the six months ended June 30, 2019. In particular, the Designated Customer also considers Sinovation Ventures has met the requirements of industry knowledge considering its long-term investment in our Company, as well as our business capability and experience. Accordingly, the Designated Customer chose to enter into agreements with Sinovation Ventures, considering it would in turn engage us to provide image detection technology services to the Designated Customer directly. Sinovation Ventures did not engage in any businesses which compete or is likely to compete with our Group during the Track Record Period and as of the Latest Practicable Date.

Sinovation Ventures began to enter into agreements with the Designated Customer in December 2019, and generated image detection service fees in 2020 with an amount of approximately RMB0.80 million. It is expected that the service fees payable to Sinovation Ventures by the Designated Customer would be approximately RMB3.67 million, RMB4.72 million and RMB6.3 million for the three years ending December 31, 2024, respectively.

The provision of image detection technology services to Sinovation Ventures will be conducted in our ordinary course of business and on a continuing basis, which will provide us with a stream of recurrent income and enhance our financial performance.

### *Pricing policies*

Fees to be received by us consist of (i) a fixed fee charged for the development of the image detection platforms; and (ii) fees for the subsequent use of the platforms with different ranges

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categorized by number of images detected. Such fees shall be determined by relevant parties at arm’s length negotiation on a cost-plus basis and shall be no more favorable than similar services our Group provided to other Independent Third Parties.

Fee structure charged by Sinovation Ventures on the Designated Customer is identical to the fee structure charged by us on Sinovation Ventures under the Image Detection Technology Service Framework Agreement. Fees paid by Designated Customer to Sinovation Ventures and fees paid by Sinovation Ventures to us were negotiated and agreed among the Designated Customer, Sinovation Ventures and us. After the Designated Customer pays the service fees to Sinovation Ventures, Sinovation Ventures would charge no more than 5% of such fees as rewards for facilitating the business cooperation of our Group and the Designated Customer which is determined at the arm’s length negotiation between Sinovation Ventures and our Company, and pay the rest of the amounts to our Group. Fees paid to our Group after such deduction shall be still no less favorable than similar services our Group provides to other Independent Third Parties.

### *Historical amounts*

We started to provide image detection technology services to Sinovation Ventures in 2020. The historical amounts of fees relating to the provision of image detection technology services by our Group to Sinovation Ventures for the year ended December 31, 2020 and the nine months ended September 30, 2021 were approximately RMB734,000 and RMB1,453,000, respectively.

### *Annual caps*

The following table sets forth the proposed annual caps under the Image Detection Technology Service Framework Agreement:

	Proposed annual caps for the year ending December 31,		
	2022	2023	2024
	(RMB in thousand)		
<b>Maximum fees to be received by our Group relating to the provision of image detection technology services to the Designated Customer . . . .</b>	3,500	4,500	6,000

### *Basis of caps*

When determining the annual caps, our Directors have taken into consideration the following factors:

- (i) the historical service fees received by our Group relating to the provision of image detection technology services to Sinovation Ventures were relatively low due to the fact that the image detection platforms were mainly under development in 2020, and has been put into full use since 2021, which is expected to result in a significant increase in our service fees as fees originated from usage of the platforms would account for over 65% of the fees under the image detection technology services agreement, which has begun to occur since the second half of 2021;
- (ii) the expected increase in Sinovation Ventures’ provision of services to the Designated Customer as a result of the expansion of application of our services across different business units and scenarios of the Designated Customer given our established satisfactory business relationship with the Designated Customer. In particular, we have entered into

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several service order agreements under the Image Detection Technology Service Framework Agreement since April 2021, pursuant to which we expanded our image detection services to two new business units of the Designated Customer. In addition, we also participated in a special event program which requires image detection platforms to facilitate the marketing activities of the Designated Customer during a sporting event. The relevant image detection platforms pursuant to these agreements have been put into use since May 2021. We expect to receive approximately RMB6 million in total pursuant to existing agreements, as the relevant image detection platforms are gradually put into full use; and

- (iii) the expected increase in images detected as a result of the increased usage frequency of the existing image detection platforms.

### *Listing Rules implications*

In respect of the transactions under the Image Detection Technology Service Framework Agreement, as the highest applicable percentage ratio for each of the three years ending December 31, 2022, 2023 and 2024 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1% but be less than 5% on an annual basis, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company subject to the annual reporting requirement and the announcement requirement but will be exempted from the circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

## INTERNAL CONTROL MEASURES

In order to ensure that the terms under the continuing connected transactions are fair and reasonable, or no less favorable than terms available to or from Independent Third Parties, and are carried out under normal commercial terms, we have adopted the following internal control procedures:

- (i) we have adopted and implemented a management system on connected transactions. Under such system, the Audit Committee under the Board is responsible for conducting reviews on compliance with relevant laws, regulations, our Company’s policies and the Listing Rules in respect of the continuing connected transactions. In addition, the Audit Committee under the Board, the Board and various other internal departments of the Company (including but not limited to the finance department and compliance and legal department) are jointly responsible for evaluating the terms of the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps;
- (ii) the Audit Committee under the Board, the Board and various other internal departments of the Company also regularly monitor the fulfillment status and the connected transaction updates. In addition, the management of the Company also regularly reviews the pricing policies of the connected transactions;
- (iii) our independent non-executive Directors and auditors will conduct annual review of the continuing connected transactions and provide annual confirmation to ensure that, in accordance with the Listing Rules, the continuing connected transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the relevant pricing policies, and are fair and reasonable in the interests of the Shareholders as a whole;

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- (iv) when considering fees to be provided to the above connected persons by our Group, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and Independent Third Parties for similar transactions, to make sure that the pricing and terms offered by the above connected persons from mutual commercial negotiations (as the case may be), are fair, reasonable and are no less favorable than those offered to Independent Third Parties; and
- (v) when considering any renewal or revisions to the connected transactions after [REDACTED], the interested Directors and Shareholders shall abstain from voting on the resolutions to approve such transactions at board meetings or shareholders’ general meetings (as the case may be), and our independent non-executive Directors and independent Shareholders have the right to consider if the terms of the non-exempt continuing connected transactions (including the proposed annual caps) are fair and reasonable, and on normal commercial terms and in the interests of our Company and our Shareholders as a whole. If the independent non-executive Directors’ or independent Shareholders’ approvals cannot be obtained, we will not continue the transactions under the framework agreement(s) to the extent that they constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules.

### CONFIRMATION BY DIRECTORS

Our Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions described in this section have been and will continue to be carried out in our ordinary and usual course of business of our Company and on normal commercial terms that are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and that the proposed annual caps for the non-exempt continuing connected transactions described in this section are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### CONFIRMATION BY THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant information and historical figures prepared and provided by our Company relating to the non-exempt continuing connected transaction described in this section and have obtained confirmation in relation to such transaction from our Company. Based on the Joint Sponsors’ due diligence, the Joint Sponsors are of the view that the aforesaid non-exempt continuing connected transaction has been and will be entered into in the ordinary and usual course of business of our Group and on normal commercial terms which are fair and reasonable, and in the interests of our Company and our Shareholders as a whole, and the proposed annual caps in respect of the non-exempt continuing connected transaction described in this section are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### WAIVER GRANTED BY THE STOCK EXCHANGE

In respect of the continuing connected transactions as described above under the Image Detection Technology Service Framework Agreement, the highest applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending December 31, 2024 are expected to exceed 0.1% but be less than 5% on an annual basis. Accordingly, the continuing connected transactions under the Image Detection Technology Service Framework Agreement are subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

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As the above non-exempt continuing connected transactions are expected to be carried out on a recurring basis, our Directors consider that strict compliance with the aforesaid announcement requirement will be impractical, and such requirements will lead to unnecessary administrative costs and create an onerous burden on us. Accordingly, we have applied to the Stock Exchange, and the Stock Exchange [has granted] us, pursuant to Rule 14A.105 of the Listing Rules, waivers from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in case of the Image Detection Technology Service Framework Agreement, provided that the total amount of transactions for each of the three years ending December 31, 2024 will not exceed the relevant proposed annual caps as set out above. The independent non-executive Directors and auditors of the Company will review whether the transactions under the non-exempt continuing connected transactions have been entered into pursuant to the principal terms and pricing policies under the relevant agreements as disclosed in this section. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually according to the requirements of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.