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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)

**UPDATE ON DISCLOSEABLE TRANSACTION
THIRD SUPPLEMENTAL AGREEMENT ON
CAPITAL INCREASE TO AND ACQUISITION OF EQUITY INTEREST IN
A COMPANY ENGAGED IN NEW RETAIL PLATFORM FOR PRESCRIPTION DRUGS
BY WAY OF CASH CONSIDERATION AND ISSUE OF CONSIDERATION SHARES**

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 and 20 December 2021. Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as defined in the aforesaid announcement of the Company dated 20 December 2021.

**SUMMARY OF THE TRANSACTIONS UNDER THE CAPITAL INCREASE AND
ACQUISITION AGREEMENT**

The completion of the Capital Increase and the Acquisition from BDT took place on 29 April 2021 (being the Completion Date), upon which the Company (through PIL) owned 51% equity interest in the OPCO. Pursuant to the Corporate Restructuring, the Company became holder of 51% of the Platform Co., which through the VIE Contractual Arrangements contractually controls the Target Group.

According to the Capital Increase and Acquisition Agreement as supplemented by the Second Supplemental Agreement, the balance of the consideration of the Capital Increase shall be settled in the following manner:

- (1) within 10 Working Days after the satisfaction of the First Performance Target (being, among other things, at any time within one year from the Completion Date, the aggregate amount of the revenue of the Target Group reaches RMB150,000,000 as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards), (a) the First Consideration Shares shall be issued to the Founding Shareholders in proportion to their shareholding in the Platform Co immediately after the completion of the Corporate Restructuring; and (b) the Second Cash Investment shall be paid by the Company to the Platform Co in cash;

- (2) within 10 Working Days after the satisfaction of the Second Performance Target (being, among other things, at any time within one year from the satisfaction of the First Performance Target, (i) the aggregate amount of the revenue of the Target Group calculated from the day after the satisfaction of the First Performance Target reaches RMB600,000,000 as shown in the Target Group’s consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, and (ii) the net profits after taxation of the Target Group calculated from the day after the satisfaction of the First Performance Target reaches RMB40,000,000 as shown in the Target Group’s consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards), (a) the Second Consideration Shares and the Third Consideration Shares shall be issued to the Founding Shareholders in proportion to their shareholding in the Platform Co immediately after the completion of the Corporate Restructuring; and (b) the Third Cash Investment shall be paid by the Company to the Platform Co in cash.

THE THIRD SUPPLEMENTAL AGREEMENT

On 12 July 2022, the Company, PIL (a wholly-owned subsidiary of the Company), the OPCO, YZN, the Founding Shareholders, ROL, the WFOE and Ms. HAN Lihui entered into the third supplemental agreement to the Capital Increase and Acquisition Agreement (as supplemented by the Second Supplemental Agreement) (the “**Third Supplemental Agreement**”) to make the following amendments in relation to payment of the balance of the consideration of the Capital Increase:

Provision under the Capital Increase and Acquisition Agreement as supplemented by the Second Supplemental Agreement:	Corresponding amendments pursuant to the Third Supplemental Agreement:
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First Performance Target	First Performance Target shall mean: at any time within one year from the Completion Date, (i) the aggregate amount of the revenue of the Target Group reaches RMB150,000,000 as shown in the Target Group’s consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (ii) there exists no circumstances which would render any members of the Target Group unable to continue its operation, and (iii) the aforesaid (i) and (ii) being confirmed by the Investor in writing.	First Performance Target shall mean: at any time within a period from 1 January to 31 December of the same calendar year, or a period from 1 July of a year to 30 June of the next year (a “ Reference Year ”) after the Completion Date and ending no later than 30 June 2024, (i) the aggregate amount of the revenue of the Target Group reaches RMB150,000,000 as shown in the Target Group’s consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (ii) out of the said revenue, the revenue generated from prescription circulation businesses shall be no less than RMB105,000,000, (iii) the net profits after taxation of the Target Group reaches RMB20,000,000 as shown in the Target Group’s consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (iv) there exists no circumstances which would render any members of the Target Group unable to continue its operation, and (v) the aforesaid (i), (ii), (iii) and (iv) being confirmed by the Investor in writing (“ Revised First Performance Target ”).
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Provision under the Capital Increase and Acquisition Agreement as supplemented by the Second Supplemental Agreement:

Second Performance Target

Second Performance Target shall mean: at any time within one year from the satisfaction of the First Performance Target, (i) the aggregate amount of the revenue of the Target Group calculated from the day after the satisfaction of the First Performance Target reaches RMB600,000,000 as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (ii) the net profits after taxation of the Target Group calculated from the day after the satisfaction of the First Performance Target reaches RMB40,000,000 as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (iii) there exists no circumstances which would render any members of the Target Group unable to continue its operation, and (iv) the aforesaid (i), (ii) and (iii) being confirmed by the Investor in writing.

Corresponding amendments pursuant to the Third Supplemental Agreement:

Second Performance Target shall mean: at any time within a Reference Year after the Completion Date and ending no later than 30 June 2025, (i) the aggregate amount of the revenue of the Target Group reaches RMB600,000,000 as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (ii) out of the said revenue, the revenue generated from prescription circulation businesses shall be no less than RMB420,000,000, (iii) the net profits after taxation of the Target Group reaches RMB40,000,000 as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (iv) there exists no circumstances which would render any members of the Target Group unable to continue its operation, and (v) the aforesaid (i), (ii), (iii) and (iv) being confirmed by the Investor in writing ("**Revised Second Performance Target**").

For the purpose of the Revised First Performance Target and the Revised Second Performance Target, "revenue generated from prescription circulation businesses" shall mean the net revenue legally obtained and generated from businesses related to prescription circulation businesses such as platform services, online diagnosis, referral, consultation and triage, medication management services, health management services, and sales sharing with pharmacy suppliers, etc.

For the purpose of determining the Revised First Performance Target, the Revised Second Performance Target and the Guaranteed Profits, the net profits after taxation referred therein shall exclude items recorded as "share-based compensation expenses" or similar items, arising from cash investment amounts and consideration in the form of shares paid or to be paid by the Company or its subsidiaries pursuant to the Capital Increase and Acquisition Agreement as supplemented by the Second Supplemental Agreement and the Third Supplemental Agreement, as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards.

Provision under the Capital Increase and Acquisition Agreement as supplemented by the Second Supplemental Agreement: Corresponding amendments pursuant to the Third Supplemental Agreement:

Payment Terms in relation to the First Consideration Shares and the Second Cash Investment

Within 10 Working Days after the satisfaction of the First Performance Target, (a) the First Consideration Shares shall be issued to the Founding Shareholders in proportion to their shareholding in the Platform Co immediately after the completion of the Corporate Restructuring; and (b) the Second Cash Investment (i.e. HKD or USD equivalent of RMB50,000,000) shall be paid by the Company to the Platform Co in cash.

(a) the First Consideration Shares shall be issued to the Founding Shareholders in proportion to their shareholding in the Platform Co immediately after the completion of the Corporate Restructuring within one month after the date of the Third Supplemental Agreement; (b) HKD or USD equivalent of RMB39,000,000 shall be paid by the Company to the Platform Co by instalments according to actual circumstances from the date of the Third Supplemental Agreement up to the satisfaction of the Revised First Performance Target; and (c) HKD or USD equivalent of RMB11,000,000 shall be paid by the Company to the Platform Co within 10 Working Days after the satisfaction of the Revised First Performance Target.

Save for the amendments as stated above, all other principal terms and conditions of the Capital Increase and Acquisition Agreement as supplemented by the Second Supplemental Agreement (including but not limited to the terms concerning the determination of the number and issue price of the Consideration Shares, lock-up undertakings agreed by the Founding Shareholders, the amount of the First Cash Investment, the Second Cash Investment and the Third Cash Investment, the obligations in relation to the Further Acquisition, the Guaranteed Profits and the adjustments to the consideration for the Further Acquisition in case of failure to satisfy the Guaranteed Profits) shall remain in full force and effect.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE THIRD SUPPLEMENTAL AGREEMENT

As of the end of April 2022, being one year from the Completion Date, the aggregate amount of the revenue of the Target Group had reached RMB150,000,000 as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards. However, almost the whole of such revenue of the Target Group was generated from the provision of Extended Services.

Although the aggregate amount of the revenue of the Target Group had reached the threshold of RMB150,000,000 under the First Performance Target, the composition of the revenue of the Target Group in the year from the Completion Date was not mainly generated from the provision of Original Services as contemplated among the parties as at the time of entering into the Capital Increase and Acquisition Agreement. The parties to the Capital Increase and Acquisition Agreement understand that the Target Group requires a longer time frame to develop the business of provision of Original Services due to changes in the market environment and the pace of medical policy reform in the PRC. Meanwhile, the Target Group's development of the business of provision of Extended Services has effectively facilitated its development of the business of provision of Original Services.

After amicable discussions among the parties and considering the actual business environment, the cashflow requirement of the Target Group for further business development, as well as the established business relationship among the parties, the parties agree to extend the time of business cooperation under the Acquisitions by revising the First Performance Target, the Second Performance Target, and the payment terms as described above, in order to reflect the initial commercial understanding among the parties formed at the time of entering into the Capital Increase and Acquisition Agreement. The amendments made pursuant to the Third Supplemental Agreement recognize the positive results of the business of the Target Group achieved in the year after the Completion Date, and also allow the Target Group a longer time frame to reach the business goals as originally contemplated by the parties. The Company considers that the revised arrangements will provide incentives for the Founding Shareholders to diligently develop the Target Group's businesses further which would in turn help to secure and promote the Group's commercial interest in the Target Group. Such arrangements also demonstrate the Company's confidence in the development of the business of online prescription, circulation and marketing of pharmaceutical products of the Target Group.

In view of the above and given that the terms of the Third Supplemental Agreement were determined after arm's length negotiations between the parties, the Directors are of the view that the terms of the Third Supplemental Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

THE FIRST CONSIDERATION SHARES

As stated in the Acquisition Announcement, the First Consideration Shares will be allotted and issued under the General Mandate. The Company is in the process of making an application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the First Consideration Shares.

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

Hong Kong, 12 July 2022

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.