

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS OVERVIEW

The following table sets forth the continuing connected transactions with our Group following the [REDACTED]:

Transaction	Applicable Listing Rules	Waiver sought	Proposed annual cap for the year ending December 31,		
			2023	2024	2025
<i>Fully-exempt continuing connected transactions</i>					
1. Purchase of EBN Products and Services	14A.97	Fully Exempt	N/A	N/A	N/A
2. Sailboat Management and Services Framework Agreement	14A.76(1)(a)	Fully Exempt	[284]	[312]	[343]
<i>Partially-exempt continuing connected transactions (subject to reporting, annual review and announcement requirements)</i>					
3. Union Yutai EBN Products Purchase and Sales Framework Agreement	14A.76(2) and 14A.105	Requirements as to announcement under Chapter 14A of the Listing Rules	[23,412]	[26,923]	[30,962]
<i>Non-exempt continuing connected transactions (subject to reporting, announcement, circular, independent shareholders’ approval and annual review requirements)</i>					
4. Purchase of Advertising Services					
— Zhongshi Hongyun Advertisement Service Framework Agreement	14A.105	Requirements as to announcement, circular and independent shareholders’ approval under Chapter 14A of the Listing Rules	[32,604]	[43,879]	[52,655]
— Guangyao Tianrun Advertisement Service Framework Agreement	14A.105	Requirements as to announcement, circular and independent shareholders’ approval under Chapter 14A of the Listing Rules	[3,962]	N/A ⁽¹⁾	N/A ⁽¹⁾
Sub-total	N/A	N/A	[36,566]	[43,879]	[52,655]

(1) The relevant advertising services will be terminated after the year of 2023. See “—Purchase of Advertising Services— Zhongshi Hongyun Advertisement Service Framework Agreement and Guangyao Tianrun Advertisement Service Framework Agreement” for more information.

CONNECTED TRANSACTIONS

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions of our Group which are fully exempt from the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Rules 14A.97 and 14A.76(1) in Chapter 14A of the Listing Rules.

Purchase of EBN Products and Services by our Connected Persons

Our connected persons have purchased and may, from time to time, purchase EBN products and services from us for their respective private use or consumption. The purchase was and will continue to be for our connected persons’ own private use or consumption in the same condition as when they were or will be bought, and was and will continue to be made on no more favorable terms to the connected person than those available to independent third parties. Our Directors believe that our direct sales to such connected persons who have personal demands for our ordinarily supplied products and services will provide convenience to them, and is in the best interest of our Group and the Shareholders as a whole.

On the basis of the foregoing, these transactions will, upon the [REDACTED], be fully-exempt from the reporting, annual review, announcement, circular and independent shareholders’ approval requirements in accordance with Rule 14A.97 of the Listing Rules.

Sailboat Management and Services Framework Agreement

On [●], the Company and Xiamen Leading Boating Co., Ltd. (廈門吉祥灣遊艇管理有限公司) (“Xiamen Leading Boating”) entered into a sailboat management and services framework agreement (the “Sailboat Management and Services Framework Agreement”), pursuant to which, Xiamen Leading Boating agree that it and its associates will provide yacht hosting and sailboat berth management and other related services to us. The term of the Sailboat Management and Services Framework Agreement will commence on the date of such agreement and end on December 31, 2025.

As of the Latest Practicable Date, Xiamen Leading Boating was controlled by LIU Zhen (“Mr. Liu”), our non-executive Director and the controller of one of our substantial Shareholders, Guangyao Tianxiang LP. Therefore, Xiamen Leading Boating will be our connected persons upon the [REDACTED].

During the year ended December 31, 2020, 2021 and 2022, the total fee paid by us to Xiamen Leading Boating for purchase of yacht hosting and sailboat berth management services was RMB0.29 million, RMB0.18 million and RMB0.22 million, respectively. The transactions between Xiamen Leading Boating and us are in the ordinary and usual course and on normal commercial terms or better than those available from independent third parties.

Xiamen Leading Boating and its respective associates are professional service providers of yacht hosting and sailboat berth management services. Given the established cooperation with Xiamen Leading Boating, we believe that it is more efficient and convenient for our Group to engage them to continue to provide to us comprehensive and professional management services for the Company’s yacht, ensuring the yacht is well-maintained and serviced.

The Directors currently expect that the estimated amount of fees relating to transactions under the Sailboat Management and Services Framework Agreement for the year ending December 31, 2023, 2024 and 2025 calculated pursuant to Chapter 14A of the Listing Rules will be less than HK\$3.0 million. Accordingly, pursuant to Rule 14A.76(1), the aforesaid continuing connected transactions will, upon the [REDACTED], be fully exempt from compliance with the requirements of reporting, annual review, announcement, circular and approval by independent shareholders under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions of our Group which are subject to reporting, annual review, announcement, circular and/or independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Partially exempt continuing connected transactions (subject to reporting, annual review and announcement requirements)

Union Yutai EBN Products Purchase and Sales Framework Agreement

Principal Terms

On [●], our Company and Tianjin Union Yutai Trading Co., Ltd. (天津市合聯裕泰商貿有限公司) (“Union Yutai”) entered into an EBN products purchase and sales framework agreement (the “Union Yutai EBN Products Purchase and Sales Framework Agreement”), pursuant to which, we agree to grant Union Yutai and its associates exclusive right to sell our EBN products and related services in Tianjin City, the PRC, and Union Yutai agrees to purchase and procure its associates to purchase from us and sell to third parties EBN product and related services in Tianjin City, the PRC. Each party also agrees that they may enter into separate underlying agreements pursuant to such framework agreement to set out details of specific transactions thereunder. The term of the Union Yutai EBN Products Purchase and Sales Framework Agreement will commence on the date of such agreement and end on December 31, 2025.

Connected Persons and Reason for the Transactions

As of the Latest Practicable Date, Union Yutai was held as to 38.5 % by Mr. Zheng, our vice chairman, executive Director and Controlling Shareholder. Therefore, Union Yutai will be an associate of Mr. Zheng and our connected person upon the [REDACTED].

Given the large sales network of Union Yutai in Tianjin City, the PRC, we benefit from the business cooperation between us and Union Yutai in sales of our products and expansion and promotion of our products and brand among the retail stores in Tianjin City, the PRC, enabling us to enhance our competitiveness.

Historical Amount

During the year ended December 31, 2020, 2021 and 2022, the total sales from Union Yutai for purchases of our products was RMB15.5 million, RMB20.0 million and RMB20.4 million, respectively.

Annual Cap and Basis for Annual Cap

Our Directors estimate that the total sales to be generated from Union Yutai’s purchases of the Company’s product will not exceed RMB[23.4] million, RMB[26.9] million and RMB[31.0] million for the year ending December 31, 2023, 2024 and 2025, respectively.

In determining such annual caps, our Directors have considered (i) the historical growth rate of sales of our products; and (ii) the estimated demands and future growth of the EBN product sales in Tianjin City, the PRC.

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Pricing Policies

We determine the sales price charged by us from Union Yutai and sales rebate enjoyed by Union Yutai for purchases and sales of our product based on the same general guide on sales price and rebate policies of such goods as provided by us to all the distributors (including independent distributors). The rebates policy are determined on an arm’s length basis with reference to the sales volume and historical performance in accordance with the rebate policies to all distributors (including independent distributors). Specific price and payment will be made according to the respective product purchase and sales contracts as further entered into between Union Yutai and us under the Union Yutai EBN Products Purchase and Sales Framework Agreement, which shall generally be in line with the term and conditions we provide to a similar independent distributor. See “Business—Our Sales network—Major Terms of Distribution Agreements” for more information.

Listing Rule Implications

The Union Yutai EBN Products Purchase and Sales Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of our business and on normal commercial terms or better, and our Directors currently expect that one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions will exceed 0.1% but will all be lower than 5%. Pursuant to Rule 14A.76(2) of the Listing Rules, the transactions will be exempt from circular and the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Waiver Application

Our Directors (including our independent non-executive Directors) are of the view that the Union Yutai EBN Products Purchase and Sales Framework Agreement benefits our business operations, given the importance of stable sales and expansion of our product sales coverage. In addition, given the transactions under the Union Yutai EBN Products Purchase and Sales Framework Agreement will be carried out from time to time after the [REDACTED] and are disclosed in this document, our Directors consider that strict compliance with the announcement requirement in respect thereof would be impractical and unduly burdensome, and would add unnecessary administrative cost to us. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the Union Yutai EBN Products Purchase and Sales Framework Agreement. The waiver will expire on December 31, 2025. In case of any future amendment to the Listing Rules which is stricter than the requirements applicable to continuing connected transactions disclosed in this document, we will take appropriate measures to ensure the compliance by us of relevant requirements within a reasonable time period.

CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions (subject to reporting, annual review, announcement, circular and independent Shareholders’ approval requirements)

We set out below a summary of the continuing connected transactions of our Group which are subject to reporting, annual review, announcement, circular and/or independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Purchase of Advertising Services — Zhongshi Hongyun Advertisement Service Framework Agreement and Guangyao Tianrun Advertisement Service Framework Agreement

Principal Terms

On [●], the Company and Beijing Zhongshi Hongyun Advertising Co., Ltd. (北京中視鴻韻廣告有限公司) (“Zhongshi Hongyun”) entered into an advertisement service framework agreement (the “Zhongshi Hongyun Advertisement Service Framework Agreement”), pursuant to which, Zhongshi Hongyun agree that it and its associates (collectively, “Zhongshi Hongyun Entities”) will provide advertising services to us. The term of the Zhongshi Hongyun Advertisement Service Framework Agreement will commence on the date of such agreement and end on December 31, 2025.

On [●], the Company and Beijing Guangyao Tianrun Advertising Co., Ltd. (北京光耀天潤廣告有限公司) (“Guangyao Tianrun”) entered into an advertisement service framework agreement (the “Guangyao Tianrun Advertisement Service Framework Agreement”), pursuant to which, Guangyao Tianrun agree that it and its associates (collectively, “Guangyao Tianrun Entities”) will provide advertising services to us. The term of the Guangyao Tianrun Advertisement Service Framework Agreement will commence on the date of such agreement and end on December 31, 2023.

Connected Persons and Reason for the Transactions

Mr. Liu is our non-executive Director and the controller of one of our substantial Shareholders. As of the Latest Practicable Date, both of Zhongshi Hongyun and Guangyao Tianrun were controlled by Mr. Liu. Therefore, Zhongshi Hongyun and Guangyao Tianrun will be our connected persons upon the [REDACTED].

Zhongshi Hongyun and Guangyao Tianrun are professional service providers of advertising services and are qualified suppliers of our target advertising placement platform. Given our established business cooperation with them and the quality of services they provided to us, we believe that it is more efficient and effective for the Group to engage them to provide relevant services to the Group for publicizing and promoting the brand image of “Yan Palace” and the products of the Group, building up and maintaining of the overall image of “Yan Palace” as well as satisfying the needs for advertising services among the members of our Group.

Historical Amount

During the year ended December 31, 2020, 2021 and 2022, the total fees paid by us to Zhongshi Hongyun for purchase of advertising services was RMB61.5 million, RMB50.2 million and RMB50.3 million, respectively.

During the year ended December 31, 2020, 2021 and 2022, the total fees paid by us to Guangyao Tianrun for purchase of advertising services was nil, RMB3.3 million and RMB10.0 million, respectively.

Annual Cap and Basis for Annual Cap

Our Directors estimate that the total fees to be paid by our Group to Zhongshi Hongyun for purchasing advertising services will not exceed RMB[32.6] million, RMB[43.9] million and RMB[52.7] million for the year ending December 31, 2023, 2024 and 2025, respectively.

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Our Directors estimate that the total fees to be paid by our Group to Guangyao Tianrun for purchasing advertising services will not exceed RMB[4.0] million for the year ending December 31, 2023. To simplify the process and improve efficiency, the relevant advertising services provided by Guangyao Tianrun will be terminated thereunder and will be uniformly provided by Zhongshi Hongyun.

In determining such annual caps, our Directors have considered primarily (i) the expect growth in our sales, as well as higher customer exposure and continual needs on promoting our products on the media platform; and (ii) the estimated increase in the amount of fees to conform with the overall growth of our business.

Pricing Policies

Before entering into any advertising services agreement pursuant to the Zhongshi Hongyun Advertisement Service Framework Agreement or Guangyao Tianrun Advertisement Service Framework Agreement, we will assess our business needs and compare the advertising services fees proposed by the Zhongshi Hongyun Entities or Guangyao Tianrun Entities with fees offered by at least two other comparable independent service providers. The service fee will be agreed by the parties through arm’s length negotiations based on the markets rates and quality of services. We will only enter into an advertising services agreement with the Zhongshi Hongyun Entities or Guangyao Tianrun Entities if the terms and conditions are fair and reasonable and based on normal or better terms than those offered by other independent third party service providers.

Listing Rule Implications

The transactions pursuant to the Zhongshi Hongyun Advertisement Service Framework Agreement and Guangyao Tianrun Advertisement Service Framework Agreement (collectively “Advertising Service Framework Agreements”) are considered connected under Rule 14A.81 of the Listing Rules and should be aggregated for the purposes of classification because (i) the services provided under the Advertising Service Framework Agreements are of similar nature and (ii) Zhongshi Hongyun Entities and Guangyao Tianrun Entities are connected with one another.

The Zhongshi Hongyun Advertisement Service Framework Agreement and Guangyao Tianrun Advertisement Service Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of our business and on normal commercial terms or better, and our Directors currently expect that one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of such transactions for the year ending December 31, 2023, 2024 and 2025 will be more than 5% in aggregate. Pursuant to the Listing Rules, such transactions will, upon the [REDACTED], be subject to the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Waiver Application

Our Directors (including our independent non-executive Directors) are of the view that the Zhongshi Hongyun Advertisement Service Framework Agreement and Guangyao Tianrun Advertisement Service Framework Agreement benefit our business operations, given the importance of increasing brand awareness to improve sales performance. In addition, given the transactions under any of the Zhongshi Hongyun Advertisement Service Framework Agreement and Guangyao Tianrun Advertisement Service Framework Agreement will be carried out from time to time after the [REDACTED] and are disclosed in this document, our Directors consider that strict compliance with the announcement, circular and independent shareholders’ approval requirement in respect thereof would be impractical and unduly burdensome, and would add unnecessary administrative cost to us. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement, circular and independent shareholders’ approval requirement under Chapter 14A of the Listing Rules in respect of transactions under the Zhongshi Hongyun Advertisement Service Framework Agreement and Guangyao Tianrun Advertisement Service Framework Agreement. The waiver will expire on December 31, 2025. In case of any future amendment to the Listing Rules which is stricter than the requirements applicable to continuing connected transactions disclosed in this document, we will take appropriate measures to ensure the compliance by us of relevant requirements within a reasonable time period.

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DIRECTORS' VIEWS

Our Directors (including our independent non-executive Directors) consider that (i) fully-exempt continuing connected transactions, (ii) partially-exempt continuing connected transactions and (iii) non-exempt continuing connected transactions set out above, including but not limited to terms and annual caps thereof, have been entered into and will be entered into (i) in the ordinary and usual course of our business; (ii) on normal commercial terms or better; and (iii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

JOINT SPONSORS' VIEWS

Based on (i) the relevant documents and information provided by the Company in relation to the foregoing non-exempt continuing connected transactions and partially exempt continuing connected transactions; (ii) their participation in due diligence and discussions with the Company; and (iii) the confirmation from the Directors disclosed above, the Joint Sponsors are of the view that the proposed annual caps of each of the above non-exempt continuing connected transactions and partially-exempt continuing connected transactions are fair and reasonable and in the interest of the Shareholders as a whole, and that such transactions have been and will be, as applicable, entered into in the ordinary and usual course of the Company's business, on normal commercial terms or better, are fair and reasonable and in the interest of the Shareholders as a whole.

INTERNAL CONTROL MEASURES

We will adopt the following internal control and corporate governance measures to closely monitor connected transactions and ensure future compliance with the Listing Rules:

- (1) we will adopt and implement a management system on connected transactions and our Board and various internal departments of our Company will be responsible for the control and daily management in respect of the continuing connected transactions;
- (2) our Board and various internal departments of our Company will be jointly responsible for evaluating the terms of the connected transactions, in particular, the fairness of the pricing policies and annual caps (if applicable) under each transaction;
- (3) our Board and the finance department of our Group will regularly monitor the connected transactions and our management will regularly review the pricing policies to ensure connected transactions to be performed in accordance with the relevant agreements;
- (4) we shall engage our auditors to, and our independent non-executive Directors will, conduct annual review on the connected transactions to ensure that the transactions contemplated thereunder have been conducted pursuant to the requirements of the Listing Rules and have fulfilled the relevant disclosure requirements; and
- (5) we will comply with the relevant requirements under Chapter 14A of the Listing Rules for the continuing connected transactions, and comply with the conditions prescribed under the waiver submitted to the Stock Exchange in connection with the continuing connected transactions in this regard.