
CONNECTED TRANSACTIONS

OVERVIEW

We have entered into certain agreements with parties that will be our connected persons (as defined under Chapter 14A of the Listing Rules) upon the Listing, and the transactions contemplated under such agreements will constitute continuing connected transactions under the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Background

As disclosed in the “Contractual Arrangements” section in this prospectus, due to foreign investment restrictions and licenses requirements in the PRC, we conduct a substantial portion of our business through the Consolidated Affiliated Entities in the PRC. We do not directly own any equity interest in the Consolidated Affiliated Entities. As a result, we have entered into a series of agreements narrowly tailored to provide our Group with control over the Consolidated Affiliated Entities and grant our Group the right to acquire the equity interests of the Consolidated Affiliated Entities when and to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangements, we operate certain businesses in China that are subject to foreign investment restrictions and licenses requirements through, and derive economic benefits from, the Consolidated Affiliated Entities.

The Contractual Arrangements were entered into among Congshu Internet, Congshu Beijing and the Registered Shareholders (namely Mr. Xu and Mr. Li) and their respective spouses (where applicable). See the section headed “Contractual Arrangements” for details.

Listing Rules implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon the Listing as Mr. Xu and Congshu Beijing are connected persons of our Company. Mr. Xu is an executive Director, chairman of our Board, chief executive officer of our Company and a Controlling Shareholder, and therefore a connected person of our Company under Rule 14A.07 of the Listing Rules. Congshu Beijing is held as to 95.00% by Mr. Xu and is therefore an associate of Mr. Xu and a connected person of our Company under Rule 14A.07(4) of the Listing Rules.

Our Directors (including our independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group’s organizational structure and business, that these transactions have been and will be entered into in our Group’s ordinary and usual course of business, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of the Consolidated Affiliated Entities and any member of our Group that is owned by us through equity interest (“**New Intragroup Agreements**” and each of them, a “**New Intragroup Agreement**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that we are placed in a special situation in relation to relying on the Contractual Arrangements to operate a substantial portion of our business, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to us if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement, circular and independent shareholders’ approval requirements.

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Application for waiver

In view of the transactions contemplated under the Contractual Arrangements and any New Intragroup Agreements, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed and the Consolidated Affiliated Entities continue to be treated as our Company's subsidiaries subject to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to the Contractual Arrangements (including with respect to any fees payable to Congshu Internet thereunder) will be made without the approval of our independent non-executive Directors.

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of the independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The ongoing reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) Congshu Internet's options (if and when so allowed under the applicable PRC laws) to acquire, all or part of the equity interests or assets of the Consolidated Affiliated Entities for the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by us, such that no annual cap shall be set on the amount of service fees payable to Congshu Internet by the Consolidated Affiliated Entities under the Exclusive Technical Service Agreement, and (iii) Congshu Internet's right to control the management and operation of, as well as, in substance, all of the voting rights of the Consolidated Affiliated Entities.

(d) Renewal and replication

On the basis that the Contractual Arrangements provide a framework that governs the relationship between our Company and our subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or replicated upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group (which our Group might wish to

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establish when justified by business expediency), without obtaining the approval of our Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. Such renewal or replication would be on the condition that the new framework would have substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as ours which we may establish will, upon renewal and/or replication of the Contractual Arrangements, be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This renewal/replication is subject to relevant PRC laws, regulations and approvals.

In addition, we have also applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under the Contractual Arrangements under Chapter 14A.105 of the Listing Rules in respect of the transactions contemplated under any New Intragroup Agreement; (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Hong Kong Stock Exchange, subject however to the condition that the Contractual Arrangements subsist and that the Consolidated Affiliated Entities will continue to be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their associates will be treated as connected persons of our Company, and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

If any term of the Contractual Arrangements are altered or if our Company enters into any new agreements with any connected person (within the meaning of the Listing Rules) in the future, our Company must will comply with the relevant requirements under Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Hong Kong Stock Exchange.

(e) Ongoing reporting

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- the Contractual Arrangements in place during each financial period will be disclosed in the annual report and accounts in accordance with the relevant provisions of the Listing Rules;
- our independent non-executive Directors will review the Contractual Arrangements annually and confirm in the annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements and that the profit generated by the Consolidated Affiliated Entities has been substantially retained by Congshu Internet, (ii) no dividends or other distributions for the relevant financial year have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to us, and (iii) any new contracts entered into, renewed or replicated between us and the Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as we are concerned and in the interests of our Shareholders as a whole;

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- our Company’s auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Hong Kong Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the Contractual Arrangements and that no dividends or other distributions for the relevant financial year have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to us;
- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and
- our Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Hong Kong Stock Exchange, the Consolidated Affiliated Entities will provide the management of our Company and our Company’s auditor full access to its relevant records for the purpose of our Company’s auditor’s review of the continuing connected transactions.

CONFIRMATION FROM OUR DIRECTORS

Our Directors, including our independent non-executive Directors, consider that the continuing connected transactions as disclosed in “Contractual Arrangements” have been and will be entered into (i) in the ordinary and usual course of the business of our Group; (ii) on normal commercial terms or better; and (iii) in accordance with the respective agreement governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, has obtained necessary representations and confirmations from our Company and our Directors and has participated in the due diligence and discussions with the management and our PRC Legal Advisor. Based on the above, the Sole Sponsor is of the view that the transactions contemplated under the Contractual Arrangements have been and will be entered into in the ordinary and usual course of business of our Group, are fundamental to our Group’s legal structure and business operations, and on normal commercial terms or better that are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Based on the above, the Sole Sponsor is also of the view that with respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of the Consolidated Affiliated Entities can be effectively controlled by Congshu Internet; (ii) Congshu Internet can obtain the economic benefits derived from the Consolidated Affiliated Entities; and (iii) any possible leakages of assets and values of the Consolidated Affiliated Entities can be prevented, on an uninterrupted basis.