
CONTRACTUAL ARRANGEMENTS

INTRODUCTION

Background

Foreign investment activities in the PRC are mainly governed by the Encouraging Catalog and the 2020 Negative List, which have been promulgated and amended from time to time jointly by the MOFCOM and the NDRC. The Encouraging Catalog sets forth the industries in which foreign investment is encouraged, while the 2020 Negative List sets forth the industries in which foreign investment is restricted or prohibited. A summary of our businesses that are subject to foreign investment restriction or prohibition in accordance with the 2020 Negative List and other applicable PRC laws and regulations (collectively, the “**Relevant Businesses**”) is set out below:

Categories	Relevant Business
Transmission of Audio-Visual Programs	<p>The short video and live streaming businesses engaged by certain of our Consolidated Affiliated Entities involve and constitute “Internet audio-visual program service” under the Audio-Visual Regulations, which would require an Audio-Visual Permit according to the Audio-Visual Regulations, promulgated by the SARFT and the MIIT on December 20, 2007 and last amended on August 28, 2015.</p> <p>According to the 2020 Negative List and other applicable PRC laws, foreign investors are prohibited from holding equity interest in an enterprise carrying out the business of transmission of audio-visual programs via information network.</p>
Internet Cultural Businesses	<p>The short video and live streaming and online games businesses engaged by certain of our Consolidated Affiliated Entities constitute “internet cultural businesses” as defined under the Internet Culture Provisions promulgated by the MOC on May 10, 2003 and last amended on December 15, 2017.</p>

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Categories	Relevant Business
	<p>According to the 2020 Negative List and other applicable PRC laws, foreign investors are prohibited from holding equity interest in an enterprise carrying out “internet cultural business” (excluding music).</p>
Value-added Telecommunications Services Business	<p>The short video and live streaming, online advertising facilitation business and online games business engaged by certain of our Consolidated Affiliated Entities are carried out through internet. Such businesses fall within the scope of telecommunications and information services provided through public network infrastructure (defined as “value-added telecommunication services business”) under the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, and the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) promulgated by the State Council, taking effect on January 1, 2002 and last amended with immediate effect on February 6, 2016.</p> <p>According to the 2020 Negative List and other applicable PRC laws, foreign investors are not allowed to hold more than 50% of the equity interests in an enterprise conducting value-added telecommunications services business (excluding electronic commerce, domestic multi-party communication, storage-forwarding and call center).</p>

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Categories	Relevant Business
Radio and Television Program Production	<p>The short video and live streaming businesses engaged by certain of our Consolidated Affiliated Entities involve production of radio and television programs (the “Radio and Television Production Business”), pursuant to the Administrative Provisions on the Production and Distribution of Radio and Television Programs (《廣播電視節目製作經營管理規定》) promulgated by the GAPP, taking effect on August 20, 2004 and last amended with immediate effect on August 28, 2015. An entity is required to hold a Radio and Television Production Operation License under applicable PRC laws and regulations to carry out such business.</p> <p>According to the 2020 Negative List and other applicable PRC laws, foreign investors are prohibited from holding equity interest in any enterprise conducting radio and television production business.</p>

The Relevant Businesses

We operate the Relevant Businesses under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored for the reasons below:

(i) Short Video and Live Streaming

We operate online short video and live streaming platform through Huayi Huilong, Beijing Kuaishou, Beijing Danmu, Hangzhou Youqu, Beijing Yunche and Yooeee Xingji (which is a wholly-owned subsidiary of Beijing Sairui Sidong). As advised by our PRC Legal Advisor, the operation of an internet-based short video and live streaming platform involves providing a mix of (i) internet cultural business, (ii) transmission of audio-visual program services, (iii) radio and television program production business, and (iv) internet information services, a subcategory of value-added telecommunication services, under applicable PRC laws and regulations. These entities are required to hold the relevant licenses, including ICB License, ICP License, Audio-Visual Permit and/or Radio and Television Production Operation License, to carry out such businesses.

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As advised by our PRC Legal Advisor, we cannot acquire any equity interest in Huayi Huilong, Beijing Kuaishou, Beijing Danmu, Hangzhou Youqu, Beijing Yunche and Yooeee Xingji, as, under the 2020 Negative List and other applicable PRC laws, foreign investors are

- (a) prohibited from holding any equity interests in a PRC enterprise engaging in internet cultural business (excluding music), transmission of audio-visual program business, or radio and television program production business; and
- (b) restricted from holding more than 50% of the equity interests in an enterprise providing internet information services, which are categorized as “value-added telecommunications service business”. Additionally, the internet information services provided by the relevant entities are integrated into the operation of our short video and live streaming platform and cannot be separated from internet cultural businesses and transmission of audio-visual program services, which fall under the “foreign-prohibited” business category.

Based on the above, we believe that to maintain the business operations and the effectiveness of license and permits held by Huayi Huilong, Beijing Kuaishou, Beijing Danmu, Hangzhou Youqu, Beijing Yunche and Yooeee Xingji, these entities and their relevant holding companies must be controlled by the Company through the Contractual Arrangements. Furthermore, since the businesses operated by these entities fall within both “foreign-prohibited” and “foreign-restricted” business categories under the 2020 Negative List, we are unable to set up any alternative structure that allows us to partly hold equity interests in and partly control the economic benefits of these entities via the Contractual Arrangements.

(ii) Online Advertising Facilitation Business

Beijing Chenzhong provides online advertising facilitation business by connecting advertisers and our content creators through our online platform. Such advertising facilitation business is fully integrated into and forms an inseparable part of our short video and live streaming business, which falls under the “foreign-prohibited” business category under the 2020 Negative List. As confirmed in an interview with the relevant regulatory authority conducted on October 10, 2020, since such form of online advertising facilitation business is based on the short video and live streaming platform and forms an extension of our short video and live streaming businesses, it should be regarded as transmission of audio-visual programs via information network, which falls within the “foreign-prohibited” business category under the 2020 Negative List. Therefore, Beijing Chenzhong has to be controlled by our Company through the Contractual Arrangements.

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(iii) Live Streaming E-Commerce Business

Chengdu Kuaigou engages in live streaming e-commerce business and operates Kwai Shop, where a significant portion of our e-commerce transactions facilitated by streamers and short-video creators take place. Such live streaming e-commerce business is fully integrated into and forms an inseparable part of our live streaming business, which falls under the “foreign-prohibited” business category. As confirmed in an interview with the relevant regulatory authority, since such form of e-commerce is based on our live streaming platform and forms an extension of our live streaming business, it should be regarded as transmission of audio-visual programs via information network, which is subject to foreign-investment prohibition under the 2020 Negative List.

Additionally, Chengdu Kuaigou currently holds a valid ICB License, and it may expand its business into internet cultural businesses in the future to support the Group’s strategic development, which is subject to foreign-investment prohibition.

Based on the above, Chengdu Kuaigou has to be controlled by our Company through the Contractual Arrangements.

(iv) Online Games

Beijing Muyuan and Beijing Murong engage in the operation of online games on mobile telecommunications network. Each of Beijing Muyuan and Beijing Murong holds an ICB License and an ICP License. As advised by our PRC Legal Advisor, the operation of online games on mobile telecommunications network falls within the scope of “internet cultural business” and “value-added telecommunication services”. According to the 2020 Negative List and other applicable PRC laws, while foreign investors are allowed to hold no more than 50% equity interests in an enterprise conducting value-added telecommunication services (excluding electronic commerce, domestic multi-party communication, storage-forwarding and call center), foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business or operation of online games.

Beijing Mufei, Beijing Jiawen and Xingzhen Technology currently do not carry out any substantive business. However, they plan to apply for necessary licenses to commence the operation of online games in future, which falls under the “foreign-prohibited” business category under the 2020 Negative List.

Based on the above, in order to enable (a) Beijing Muyuan and Beijing Murong to continue operating online games on mobile telecommunications network; and (b) Beijing Mufei, Beijing Jiawen and Xingzhen Technology to commence the operation of online games in the future, these companies have to be controlled by the Company through the Contractual Arrangements.

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(v) Supporting Functions which are Inseparable from the Operation of the Group's Short Video and Live Streaming Businesses

Certain Consolidated Affiliate Entities are engaged in the provision of services to support the principal business of our Group, all of which are non-revenue generating entities.

(a) Content Analysis, Customer Service and Provisions of Trainings

As the operator of online short video and live streaming platform, the Group is required to ensure that the content displayed on the Group's platform complies with applicable PRC laws and regulations. As such, Wuhan Kuaishou, Jiangsu Huafu, Wuhan Yuji, Xiangxi Kuaishou, Chengdu Suiyi primarily provide content analysis functions, which form an integral part of and hence inseparable from the operation of our short video and live streaming platform.

Customer service is closely linked to and is an inseparable part of the Group's business. The Group's customer service provides support through telephone or online instant messages. It also helps users with issues they encounter, gathers feedback from customers and responds to customer complaints and recommendations. Huai'an Kangxiangfu, Huai'an Xingyi, Guizhou Fankuai, Tianjin Huilong and Sichuan Fuyuanchun primarily provide such customer services. In order to streamline the corporate structure, Sichuan Fuyuanchun no longer conducts any substantive business and is in the process of being deregistered with the relevant authority. It is expected that the deregistration process will be completed after the Listing.

Changsha Kuaishou provides trainings to our streamers to enhance their awareness of compliance with applicable laws and regulations when live streaming on our platform.

As advised by our PRC Legal Advisor, content analysis, customer services and provision of trainings to our streamers do not fall into any foreign-prohibited or foreign-restricted business category. However, the content analysis, customer service and provision of trainings to our streamers are fully integrated into and interdependent on the Group's operation of online short video and live streaming platform. Additionally, as confirmed in an interview with the relevant regulatory authority, since content analysis, customer services and provision of trainings to streamers are closely related to the short video and live streaming business, such supporting functions are part of the audio-visual business, a "foreign-prohibited" business category, from the perspective of regulatory administration, and therefore it is more appropriate for such supporting functions to be provided by entities and/or their subsidiaries operating the short video and live streaming businesses so as to satisfy the regulatory requirements.

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(b) Payment of Compensations to Streamers

Huai'an Kangxiangfu and Guizhou Fankuai pay compensations to our streamers through certain popular third-party online payment channels in China (the “**Third-Party Online Payment Channels**”). To meet the specific licensing requirements imposed by the Third-Party Online Payment Channels for using their respective payment services, each of Huai'an Kangxiangfu, Guizhou Fankuai and Guizhou Fanxin Lingzhi holds a valid ICB License.

(vi) Companies Incorporated for Future Business Development

(a) Internet Data Center

To meet the increasing demands for big data and AI technologies driven by the Group's massive and ever-growing user base, the Group is currently building a hyperscale internet data center in Ulanqab of Inner Mongolia, PRC. Upon completion, the Group's data center in Ulanqab is expected to accommodate 300,000 servers, the first batch of which are expected to be put into operation in 2021.

Kuaishou Smart Cloud will operate the Group's data center in Ulanqab. The provision of such services is regarded as the business of internet data center, a subcategory of value-added telecommunication service under the Telecommunication Business Catalogue (《電信業務分類目錄》), as last amended by the MIIT on June 6, 2019. The operation of such business would require the Value-added Telecommunication Business Operation Permit with Internet Data Center Services (including internet resources cooperation services) (“**IDC License**”).

In order to operate the Group's internet data center in Ulanqab, Kuaishou Smart Cloud will apply for an IDC License. As advised by the PRC Legal Advisor, other than certain exceptions allowed with a telecommunication service enterprise incorporated in Hong Kong or Macau, no enterprises which are partly invested or wholly owned by foreign investors are allowed to apply for or hold an IDC License. Therefore, Kuaishou Smart Cloud must be controlled by us through the Contractual Arrangements.

(b) Other Entities

Each of Beijing Kuaifu'an, Beijing Shanggu Kaitian, Xiong'an Kuaishou, Beijing Zhongbo Keyuan, Beijing Hanyu and Guizhou Fanxin Lingzhi holds an ICB License and/or an ICP License while they have not yet commenced substantive business operations.

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Beijing One Smile, Sichuan Kuaishou, Beijing Qingque, Huai'an Shuangxin, Beijing Ruigexing, Hainan Ziyi and Huankuai Technology do not hold specific foreign restricted/prohibited license and they have not yet commenced substantive business operations.

The entities above are not expected to commence any substantive business operations by the time of the Listing. We will undertake to procure these entities not to conduct any businesses that are not subject to foreign investment restrictions or prohibitions, and to the extent that any of these entities does, we will transfer such entity outside of the Contractual Arrangements prior to engaging in any unrestricted businesses.

Based on the above and considering that the entities above did not generate revenues during the Track Record Period, the Company controls these entities through the Contractual Arrangements.

(vii) Minority Investments

Furthermore, in our ordinary course of business we make minority investments in a number of companies. These companies are generally members of the broader “ecosystem” related to our business and provide products, services and/or resources that we believe can help us efficiently expand product and service offerings to our users, have developed proprietary technologies complementary to ours, or have the ability to help us enter into new markets. Beijing Kuaishou, a Consolidated Affiliated Entity, is the primary company conducted such investments in the PRC. The investments are passive, non-controlling interests and none of the investments are material to us. Given their immateriality and the fact that we do not consolidate or control them, and for the reasons outlined above, our Directors consider that our Contractual Arrangements are narrowly tailored.

These investments are investments classified as financial assets carried at fair value through profit or loss and are not consolidated into our Group’s financial statements. Changes in the fair value are included in profit or loss in the period in which they arise and presented within “Other gains/(losses), net” in the income statement. Upon disposal, the difference between the net sale proceeds and the carrying amount is also included in the income statement as “Other gains/(losses), net.”

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None of the minority investments controlled via the Contractual Arrangements are material to us. The long-term investments measured at fair value through profit or loss controlled via the Contractual Arrangements accounts for approximately 0.36%, 2.27%, 0.80% and 0.74% of our total assets as of December 31, 2017, 2018 and 2019 and September 30, 2020, respectively, and the fair value changes on investments measured at fair value through profit or loss controlled through the Contractual Arrangements accounts for approximately nil (the fair value changes on investments measured at fair value through profit or loss held by the Contractual Arrangements is zero for the year ended December 31, 2017), 0.05%, 0.32% and 0.08% of our total revenues for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020, respectively. The long-term investments measured at fair value through profit or loss attributed by the top five investments controlled through the Contractual Arrangements in aggregate accounts for approximately 0.36%, 1.63%, 0.29% and 0.16% of our total assets as of December 31, 2017, 2018 and 2019 and September 30, 2020, respectively, and the fair value changes on investments measured at fair value through profit or loss attributed by the top five investments controlled through the Contractual Arrangements in aggregate accounts for approximately nil, nil, 0.36% and 0.03% of our total revenues for the years ended December 31, 2017, 2018 and 2019 and the nine months ended September 30, 2020, respectively.

Based on the above reasons, we are of the view that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in mainland China. We will unwind and terminate the Contractual Arrangements wholly or partially once our businesses are no longer prohibited or restricted from foreign investment.

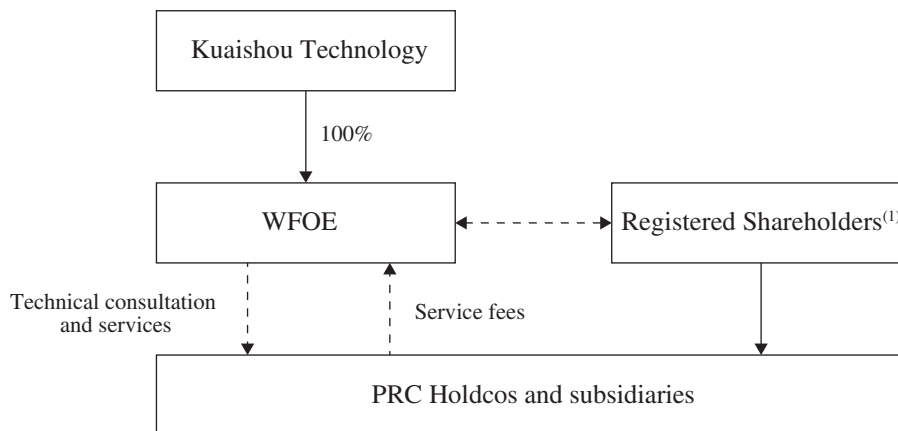
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Overview

Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations outlined above, we have determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we have decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive substantially all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between WFOE, on the one hand, and the PRC Holdcos and the Registered Shareholders of the PRC Holdcos, on the other hand. In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we implemented the Contractual Arrangements with regards to our Consolidated Affiliated Entities.

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The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to WFOE and our Company as stipulated under the Contractual Arrangements, details of which are set out in “— Summary of the Material Terms under the Contractual Arrangements” in this section:



Notes:

- (1) Registered Shareholders refer to the registered shareholders of the PRC Holdcos, namely (i) Hangzhou Youqu, (ii) Huayi Huilong, (iii) Beijing One Smile, (iv) Beijing Mufei, (v) Beijing Jiawen, (vi) Beijing Hanyu, (vii) Beijing Murong, (viii) Guizhou Fankuai, (ix) Beijing Zhongbo Keyuan, (x) Sichuan Fuyuan Chun (this company is in the process of being deregistered), (xi) Huankuai Technology, (xii) Guizhou Fanxin Lingzhi, (xiii) Huai'an Shuangxin, and (xiv) Beijing Qingque. Among these Registered Shareholders, (i) Zhang Fei and Hu Changjuan are two Registered Shareholders of Beijing One Smile. Zhang Fei is a non-executive Director of our Company and a representative of 5Y Capital (formerly known as Morningside Venture Capital), and Hu Changjuan is a representative of Baidu, Inc. Both 5Y Capital and Baidu Inc. are Pre-IPO Investors of the Company; (ii) Su Hua is our co-founder, a Controlling Shareholder and an executive Director and holds the Shares of our Company through Reach Best; (iii) Cheng Yixiao is our co-founder, a Controlling Shareholder and an executive Director and holds the Shares of our Company through Ke Yong; (iv) Yin Xin is the director of Beijing Kuaishou and holds the Shares of our Company through Fortune One; (v) Yang Yuanxi is the director of Beijing Kuaishou Ads and holds the Shares of our Company through Jovial Star; and (vi) the information of other Registered Shareholders of our PRC Holdcos is set forth below.
- (2) The details of the shareholding structure of our PRC Holdcos are set out below:
 - (i) Hangzhou Youqu is owned by Su Hua as to 90% and Peng Xiaochun (an employee of our Group) as to 10%;
 - (ii) Huayi Huilong is owned by Yang Yuanxi as to 90% and Peng Xiaochun (an employee of our Group) as to 10%;
 - (iii) Beijing One Smile is owned by Su Hua as to 32.3224%, Cheng Yixiao as to 25.8561%, Zhang Fei as to 23.7038%, Yin Xin as to 7.3956%, Yang Yuanxi as to 5.5372% and Hu Changjuan as to 5.1850%;
 - (iv) Beijing Mufei is 100% owned by Zhang Xiaodong (an employee of our Group).
 - (v) Beijing Jiawen is 100% owned by Li Wendi (an employee of our Group).
 - (vi) Beijing Hanyu is owned as to 50% and 50% by Tao Shengru and Lu Yuan, both of whom are employees of our Group.
 - (vii) Beijing Murong is 100% owned by Chen Qu (an employee of our Group).

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- (viii) Guizhou Fankuai is owned by Jia Hongyi (an employee of our Group and a joint company secretary of our Company) as to 95% and Wang Lu (an employee of our Group) as to 5%.
 - (ix) Beijing Zhongbo Keyuan is owned by Lu Yuan to 90% and Tao Shengru as to 10%, both of whom are employees of our Group.
 - (x) Sichuan Fuyuanchun is owned by Tao Shengru to 55% and Lu Yuan as to 45%, both of whom are employees of our Group.
 - (xi) Huankuai Technology is 100% owned by Lu Hao, the brother-in-law of Su Hua.
 - (xii) Guizhou Fanxin Lingzhi is owned by Jia Hongyi (an employee of our Group and a joint company secretary of our Company) as to 95% and Peng Xiaochun (an employee of our Group) as to 5%.
 - (xiii) Huai'an Shuangxin is owned as to 50% and 50% by Jiao Xiang and Wang Lvbing, both of whom are employees of our Group.
 - (xiv) Beijing Qingque is owned as to 50% and 50% by Jia Hongyi (an employee of our Group and a joint company secretary of our Company) and Yin Xin (the director of Beijing Kuaishou and holding the Shares of our Company through Fortune One).
- (3) Among our 14 PRC Holdcos above, the Registered Shareholders of 11 PRC Holdcos (the “**Relevant 11 PRC Holdcos**”) are either employees of our Group or a close family member of our co-founder. The Group is of the view that currently these Relevant 11 PRC Holdcos are immaterial to the Group’s businesses and financial performance. In the event that any of these Relevant 11 PRC Holdcos becomes a material contributor of the Group’s revenue in the future, the Group would be able to rely on the following safeguards and measures put in place to manage the potential risks arising from the contractual arrangements:

a. Contractual Arrangements

The Contractual Arrangements enable WFOE to exercise effective control over the Relevant 11 PRC Holdcos. No event of default has ever occurred since our current contractual arrangements were put in place and we have not experienced any practical difficulties in enforcing the contractual arrangements. The contractual arrangements agreements are binding upon all the Registered Shareholders of the Relevant 11 PRC Holdcos, which are in compliant with the requirements of the HKEX-LD43-3 and consistent with the terms of contractual arrangements adopted by other issuers listed on the Stock Exchange. In particular:

- i. Under the exclusive option agreements between WFOE and the Registered Shareholders of the Relevant 11 PRC Holdcos, WFOE has the exclusive and irrevocable right to purchase, or designate one or more persons/entities to purchase (i) from the Registered Shareholders of the Relevant 11 PRC Holdcos all or part of their equity interests in the Relevant 11 PRC Holdcos, and (ii) from the Relevant 11 PRC Holdcos all or any part of the assets of the Relevant 11 PRC Holdcos, at any time in WFOE’s absolute discretion. The consideration for purchasing the equity interest of the Relevant 11 PRC Holdcos from the respective Registered Shareholders shall be RMB1 or the lowest price as permitted by applicable PRC laws. The consideration for purchasing assets from the Relevant 11 PRC Holdcos shall be the lowest price as permitted by applicable PRC laws.

Therefore, if any of the Relevant 11 PRC Holdcos becomes a material contributor of the Group’s revenue in the future, when necessary, WFOE can exercise its rights under the exclusive option agreements to purchase or designate one or more persons (such as our Controlling Shareholders) to purchase, all the equity interest of any of the Relevant 11 PRC Holdcos at RMB1 or the lowest price as permitted by applicable PRC laws, or all the assets of the Relevant 11 PRC Holdcos at the lowest price as permitted by applicable PRC laws.

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- ii. In order to further secure WFOE's rights under the exclusive option agreements, the respective Registered Shareholders of the Relevant 11 PRC Holdcos have also entered into the equity pledge agreements with the Relevant 11 PRC Holdcos and WFOE, pursuant to which the Registered Shareholders of the Relevant 11 PRC Holdcos agreed to pledge all their equity interest in the Relevant 11 PRC Holdcos in favour of WFOE as a security to guarantee their performance of the contractual obligations (including their obligations under the exclusive option agreements). These equity pledges come into effect upon completion of the registration with the relevant administration for industry and commerce and will remain valid until all the contractual obligations of the Registered Shareholders of the Relevant 11 PRC Holdcos have been fully performed. The registration of the equity pledge agreements involving all the Relevant 11 PRC Holdcos have been duly completed.
- iii. The Registered Shareholders of the Relevant 11 PRC Holdcos have also executed the shareholder voting rights proxy agreements, under which these Registered Shareholders irrevocably appointed WFOE and its designated persons (including but not limited to the directors of the holding companies of WFOE and their successors and the liquidators replacing such director or successors) as their exclusive agent to exercise on their behalf, any and all rights that they have in respect of their equity interests in the Relevant 11 PRC Holdcos, including shareholders' voting rights.
- iv. The Registered Shareholders of the Relevant 11 PRC Holdcos have delivered a confirmation to the Company to the effect that (i) his/her interests in the Relevant 11 PRC Holdcos do not fall within the scope of communal properties; and (ii) in the event of his/her death, disappearance, incapacity, divorce, marriage or any other event which causes his/her inability to exercise his/her rights as a shareholder of the Relevant 11 PRC Holdcos, his/her successors (including his/her spouse) will not take any actions that would affect his/her obligations under the Contractual Arrangements.
- v. The spouses of the Registered Shareholders of the Relevant 11 PRC Holdcos have also executed an undertaking to confirm, among others, (i) his/her spouse's interests in the Relevant 11 PRC Holdcos do not fall within the scope of communal properties; and (ii) he/she has no right to or control over the interests of the Registered Shareholders in the Relevant 11 PRC Holdcos and will not have any claim on such interests.




b. Centralized Management

Although the Registered Shareholders of the Relevant 11 PRC Holdcos are the shareholders of these entities on record, the Group is managed centrally and the Registered Shareholders themselves have a limited role to play in the day-to-day management of the Relevant 11 PRC Holdcos save for performing various administrative functions. Given the Group's reach across multiple jurisdictions, the Group is managed on a group basis by a team of individuals most relevant and responsible for managing its business (the "**Core Management**", which includes Su Hua, Cheng Yixiao, the two executive Directors and the co-founders of our Group, and Chong Nicholas Yik Kay and Chen Dingjia, two members of the Group's senior management), with support from management and operational teams based in both the headquarters of the Group in Beijing and local teams. The Core Management is primarily responsible for the day-to-day and overall management of the business and operations of the Group. The Registered Shareholders of the Relevant 11 PRC Holdcos are legally bound, and accustomed to carry out the instructions of the Core Management.

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c. Established procedures of using corporate chops and seals

The Group has also implemented a strict control system over the use of corporate chops and seals as an important part of its overall control over the PRC Holdcos. The corporate chops and seals of the Relevant 11 PRC Holdcos are centrally held and secured at the Group's headquarters, and the Group has designated specific personnel to be responsible for administering the corporate chops and seals. The corporate chops and seals can only be used by following the Group's established policies and procedures and none of the Registered Shareholders of the Relevant 11 PRC Holdcos are able to obtain and affix chops and seals without proper authorization. Before using the corporate chops and seals, an application must be initiated in accordance with the Group's internal approval procedures and the designated personnel responsible for chop administration will only affix chops after all the necessary approvals have been obtained.

- (4) “” denotes beneficial ownership in the equity interest. WFOE is an indirect wholly-owned subsidiary of Kuaishou Technology.
- (5) “” denotes contractual relationship.
- (6) “” denotes the control by WFOE over the Registered Shareholders and the PRC Holdcos through (i) proxy agreement to exercise all shareholders' rights in the PRC Holdcos, (ii) exclusive options to acquire all or part of the equity interests and assets of the PRC Holdcos and (iii) equity pledges over the equity interests in the PRC Holdcos.

Summary of the Material Terms under the Contractual Arrangements

A description of each of the specific agreements that comprise the Contractual Arrangements entered into by WFOE and each of the PRC Holdcos is set out below:

Exclusive Technical Consultation and Service Agreements

As part of the Contractual Arrangements, the PRC Holdcos have entered into the amended and restated exclusive technical consultation and service agreements (the “**Exclusive Technical Consultation and Service Agreements**”) with WFOE, respectively, which contain similar terms and conditions. Pursuant to the Exclusive Technical Consultation and Service Agreements, in exchange for service fees, the PRC Holdcos have agreed to engage WFOE as their respective exclusive provider of the following technical consultation and services:

- the research and development of technologies required by the PRC Holdcos' businesses, including the development, design and production of database software for business information, user interface software and other related technologies, and to grant them for the PRC Holdcos' use;
- the application and implementation of technologies relating to the operation of the PRC Holdcos' businesses, including but not limited to system design, system installation and debugging and system trial runs;

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- the daily maintenance, monitoring, debugging and troubleshooting for the PRC Holdcos' computers and network software equipment (including information databases), including the timely entering users' information into the database, or timely updating the database, regularly updating the user interface and providing other related technical services according to other business information provided by the PRC Holdcos' at any time;
- providing consultation services for the procurement of required equipment, software and hardware for the PRC Holdcos' network operations, including but not limited to utility software, applications and selection of technology platforms, system installation and testing, and advise on their complementary hardware facilities, equipment models and their respective performances;
- providing suitable training and technical support and assistance to employees of the PRC Holdcos, including but not limited to customer service and technological training, introduction to the installation and operation of systems and equipment, resolving problems that may arise during the installation and operation of systems and equipment, providing consultation and suggestions on online editing platforms and software, helping the PRC Holdcos collect and compile all kinds of information;
- providing technical consultations and solutions to technical questions raised by the PRC Holdcos in relation to network equipment, technical products and software; and
- other relevant services and consultation as required by the PRC Holdcos' businesses.

The service fees shall consist of 100% of the total consolidated profit of the Consolidated Affiliated Entities, after the deduction of any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses, taxes, other statutory contributions, and any reasonable operating profits calculated based on the application of PRC tax law principles and tax practices. Notwithstanding the foregoing, the WFOE may adjust the scope and amount of service fees in accordance with PRC tax law principles and tax practices, and with reference to the working capital needs of the PRC Holdcos, and the PRC Holdcos will accept any such adjustment. The WFOE will calculate the service fees on a monthly basis and issue a corresponding invoice to the PRC Holdcos. Notwithstanding the payment arrangements in the Exclusive Technical Consultation and Service Agreements, WFOE may adjust the payment time and method, and the PRC Holdcos will accept any such adjustment.

In addition, absent the prior written consent of WFOE, during the term of the Exclusive Technical Consultation and Service Agreements, with respect to the services subject to the Exclusive Technical Consultation and Service Agreements, the PRC Holdcos shall not accept the same or any similar consultation or services provided by any third party.

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The Exclusive Technical Consultation and Service Agreements also provide that WFOE has the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the PRC Holdcos during the performance of the Exclusive Technical Consultation and Service Agreements.

The Exclusive Technical Consultation and Service Agreements shall remain effective unless terminated (a) in accordance with the provisions of the Exclusive Technical Consultation and Service Agreements; (b) in writing by the WFOE; or (c) renewal of the expired business period of either the WFOE or the PRC Holdcos is declined or rejected by relevant government authorities, at which time the Exclusive Technical Consultation and Service Agreements will terminate upon termination of that business period.

Exclusive Option Agreements

As part of the Contractual Arrangements, the respective Registered Shareholders have entered into the amended and restated exclusive option agreements (the “**Exclusive Option Agreements**”) with the PRC Holdcos and WFOE, each of which contains similar terms and conditions. Pursuant to the Exclusive Option Agreements, WFOE has the exclusive and irrevocable right to purchase, or to designate one or more persons/entities to purchase, from the Registered Shareholders of the PRC Holdcos all or any part of their equity interests in the PRC Holdcos and from the PRC Holdcos all or any part of the assets of the PRC Holdcos at any time in WFOE’s absolute discretion in accordance with the provisions of the Exclusive Option Agreements and to the extent permitted by the PRC laws. The consideration in relation to purchasing shares from the Registered Shareholders of the PRC Holdcos shall be RMB1 or the lowest price as permitted by the applicable PRC laws. The consideration in relation to purchasing assets from the PRC Holdcos shall be the lowest price as permitted under the applicable PRC laws.

The PRC Holdcos and the Registered Shareholders of the respective PRC Holdcos, among other things, have covenanted that:

- without the prior written consent of WFOE, they shall not in any manner supplement, change or amend the constitutional documents of the PRC Holdcos, increase or decrease their registered capital, or change the structure of their registered capital in other manner;
- they shall maintain the PRC Holdcos’ corporate existence in accordance with good financial and business standards and practices, and prudently and effectively operate their business and handle their affairs;

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- without the prior written consent of WFOE, they shall not at any time following the signing of the Exclusive Option Agreements sell, transfer, pledge or dispose of in any manner any assets of the PRC Holdcos or legal or beneficial interest in the material business or revenues of the PRC Holdcos, or allow the encumbrance thereon of any security interest;
- without the prior written consent of WFOE, the PRC Holdcos shall not incur, inherit, guarantee or assume any debt, except for (i) debts incurred in the ordinary course of business other than payables incurred by a loan, and (ii) debts already disclosed to WFOE and obtained written approval from WFOE;
- the PRC Holdcos shall always operate all of their businesses during the ordinary course of business to maintain their asset value and refrain from any action/omission that may adversely affect the PRC Holdcos' operating status and asset value;
- without the prior written consent of WFOE, the PRC Holdcos shall not execute any material contracts (including but not limited to contracts with a value above RMB5,000,000), except the contracts executed in the ordinary course of business;
- without the prior written consent of WFOE, the PRC Holdcos shall not provide any person with any loan, guarantee or credit;
- they shall provide WFOE with information on the PRC Holdcos' business operations and financial condition at the request of WFOE;
- they shall procure and maintain insurance in respect of the PRC Holdcos' assets and businesses from an insurance carrier acceptable to WFOE, at an amount and type of coverage typical for companies that operate similar businesses or hold similar properties or assets in the same region;
- without the prior written consent of WFOE, they shall not cause or permit the PRC Holdcos to merge, consolidate with, acquire or invest in any person;
- they shall immediately notify WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the PRC Holdcos' assets, businesses or revenues;

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- to maintain the ownership by the PRC Holdcos of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims;
- without the prior written consent of WFOE, the PRC Holdcos shall not in any manner distribute dividends, provided that upon the written request of WFOE, the PRC Holdcos shall immediately distribute all distributable profits to their shareholders; and
- at the request of WFOE, they shall appoint any persons designated or approved by WFOE as the directors and/or senior management of the PRC Holdcos.

In addition, the Registered Shareholders of the PRC Holdcos, among other things, have covenanted that:

- without the written consent of WFOE, they shall not sell, transfer, pledge or dispose of in any other manner the ownership or beneficial interest in the PRC Holdcos, or allow the encumbrance thereon of any security interest, except for the Equity Pledge Agreements (as defined below);
- for each exercise of the equity purchase option, to procure the shareholders' meeting of the PRC Holdcos to vote on the approval of the transfer of equity interests;
- at the request of WFOE at any time, they shall transfer their equity interests to WFOE or a representative appointed by WFOE immediately and unconditionally at any time, and relinquish the pre-emptive right he/she/it is entitled to in relation to the transfer of equity interest by other existing shareholders to the PRC Holdcos;
- each of them will strictly abide by the provisions of the Exclusive Option Agreements, perform the obligations under these agreements in a practical manner, refrain from any action/omission which would affect the validity of such agreements;
- each of them will immediately gift any profits, dividends, or liquidation proceeds received from the PRC Holdcos to WFOE or a representative appointed by WFOE to the extent permitted by the PRC laws; and
- each of them will bear joint and several liability for the obligations under the Exclusive Option Agreements.

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The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in the PRC Holdcos have been transferred to the WFOE or its appointee(s).

Equity Pledge Agreements

As part of the Contractual Arrangements, the respective Registered Shareholders have entered into the amended and restated equity pledge agreements (the “**Equity Pledge Agreements**”) with the PRC Holdcos and WFOE, each of which contains similar terms and conditions. Pursuant to the Equity Pledge Agreements, the Registered Shareholders of the PRC Holdcos agreed to pledge all their respective equity interests in the PRC Holdcos that they own, including any interest or dividend paid for the shares, to WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The Equity Pledges came into effect upon completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders of the PRC Holdcos and the PRC Holdcos under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders of the PRC Holdcos and the PRC Holdcos under the relevant Contractual Arrangements have been paid.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), WFOE shall have the right to exercise all such rights as a secured party under the Equity Pledge Agreements and any applicable PRC law, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders of the PRC Holdcos.

As of the Latest Practicable Date, the registrations of all the Equity Pledge Agreements in relation to our PRC Holdcos had been completed.

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Shareholder Voting Rights Proxy Agreements

The Registered Shareholders of the PRC Holdcos have executed into the amended and restated shareholder voting rights proxy agreements (the “**Proxy Agreements**”). Under the Proxy Agreements, the Registered Shareholders of the PRC Holdcos irrevocably appointed WFOE and its designated persons (including but not limited to the directors of the holding companies of WFOE and their successors and the liquidators replacing such directors or successors) as their exclusive agent to exercise on their behalf, any and all rights that they have in respect of their equity interests in the PRC Holdcos, including without limitation:

- to propose, convene and attend shareholders’ meetings of PRC Holdcos according to the PRC Holdcos’ articles of association;
- to exercise the voting rights and any power they are entitled to as shareholders of the PRC Holdcos, including but not limited to the appointment and selection of directors, supervisors, general manager and other members of senior management appointer by shareholders; and
- to exercise all other shareholders’ voting rights under the PRC Holdcos’ articles of association and other applicable laws (including any other voting rights provided by the articles after amending the articles).

Further, the Proxy Agreements are irrevocable and shall remain effective for so long as each shareholder holds equity interests in the PRC Holdcos.

Confirmation from the Registered Shareholders

Each of the Registered Shareholders has confirmed to the effect that (i) his/her interests do not fall within the scope of communal properties, and his/her spouse does not have the right to claim any interests in the respective PRC Holdcos (together with any other interests therein) or exert influence on the day-to-day management and voting matters of the respective PRC Holdcos; and (ii) in the event of his/her death, disappearance, incapacity, divorce, marriage or any other event which causes his/her inability to exercise his/her rights as a shareholder of the respective PRC Holdcos, his/her successors (including his/her spouse) will not take any actions that would affect his/her obligations under the Contractual Arrangements.

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Spouse Undertakings

The spouse of the relevant Registered Shareholders, where applicable, has signed amended and restated undertakings to the effect that (i) he/she has no right to or control over such interests of the respective registered shareholder and will not have any claim on such interests; (ii) confirms that the respective spouse may further amend or terminate the Contractual Arrangements without the need for authorization or consent by him/her; (iii) the respective spouse's interests in the PRC Holdcos (together with any interests therein) do not fall within the scope of communal properties; and (iv) if he/she is transferred any shares held by their spouse for any reason, he/she will be bound by the Contractual Arrangements and will observe obligations as a shareholder of the PRC Holdcos, and will sign all necessary documents and to take all necessary actions to ensure the Contractual Arrangements are properly preformed.

Other Key Terms Thereunder

Dispute resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration after 30 days from negotiation notice issued by the other party, in accordance with the then effective arbitration rules. The arbitral tribunal shall consist of three arbitrators appointed in accordance with the arbitration rules, with the claimant and respondent each appointing one arbitrator and the third arbitrator being agreed and appointed by the first two arbitrators or by CIETAC. The seat of arbitration shall be in Beijing, and the arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that to the extent permitted by PRC law, the arbitral tribunal may award remedies over the shares or assets of our PRC Holdcos and its subsidiaries or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of our PRC Holdcos. Any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of WFOE or our PRC Holdcos are located for interim remedies or injunctive relief in support of arbitration proceedings. During the arbitration, except for the disputed areas which are subject to arbitration, the parties shall continue to perform their other obligations under the Contractual Arrangements.

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However, our PRC Legal Advisor has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

In connection with the dispute resolution method as set out in the Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Advisor that: (a) under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting assets of or equity interest in our Consolidated Affiliated Entities in case of disputes. As such, these remedies may not be available to our Group under PRC laws; (b) further, under the PRC laws, courts or judicial authorities in the PRC generally would not award remedies over the shares and/or assets of our Consolidated Affiliated Entities, injunctive relief or winding-up of each of our Consolidated Affiliated Entities as interim remedies, before there is any final outcome of arbitration; (c) however, the PRC laws do not disallow the arbitral body to give award of transfer of assets of or an equity interest in each of our Consolidated Affiliated Entities at the request of arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures; (d) in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over each of our Consolidated Affiliated Entities, and our ability to conduct our business may be negatively affected; and (e) even if the above-mentioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that the PRC Holdcos or their respective Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See “Risk Factors — Risks Relating to our Corporate Structure” for further details.

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Conflict of interest

Each of the Registered Shareholders of the PRC Holdcos has given their irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the sub-paragraph headed “— Powers of Attorney” above.

Loss sharing

Under the relevant PRC laws and regulations, neither our Company nor WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. WFOE intends to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts its business operations in the PRC through our Consolidated Affiliated Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

However, as provided in the Exclusive Option Agreements, without the prior written consent of WFOE, the PRC Holdcos shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its assets; (ii) execute any material contract with a value above RMB5,000,000, except those entered into in the ordinary course of business; (iii) provide any person with any loan, guarantee or credit; (iv) incur, inherit, guarantee or assume any debt that is not incurred in the ordinary course of business or without written approval from WFOE; (v) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other manner. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and our Company in the event of any loss suffered from the PRC Holdcos can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreements, in the event of a mandatory liquidation required by the PRC laws, the Registered Shareholders of our Consolidated Affiliated Entities shall give the proceeds they received from liquidation as a gift to WFOE or its designee(s) to the extent permitted by the PRC laws.

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Insurance

There are certain risks involved in our operations, in particular, those relating to our corporate structure and the Contractual Arrangements. A detailed discussion of material risks relating to our Contractual Arrangements is set forth in “Risk Factors — Risks Relating to Our Corporate Structure”. We have determined that the costs of insurance for the risks associated with business liability or disruption and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Accordingly, as of the Latest Practicable Date, our Company did not purchase any insurance to cover the risks relating to the Contractual Arrangements. For further details, see “Risk Factors — Risks Relating to Our Business”.

Our confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

Circumstances under which we will adjust or unwind the Contractual Arrangements

If the relevant business is no longer falling in the catalog of prohibitions or certain conditions and permission of foreign investment access required under the applicable laws, and we can legally operate our business under PRC laws, regulations and policies, the WFOE will exercise the call option under the Exclusive Option Agreements to acquire the equity interest/assets of the PRC Holdcos and unwind the Contractual Arrangements subject to any application or approval procedures and the approval by the relevant governmental authorities.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, we believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations. Our PRC Legal Advisor has also advised that:

- (a) as confirmed by the parties to the Contractual Arrangements, each of WFOE and the PRC Holdcos has obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements;

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- (b) each of the agreements is binding on the parties thereto and none of them would violate the provisions of the Civil Code including in particular “impairing others’ legitimate rights and interests with malicious collusion” or fall within any of the circumstances under which a contract may become invalid pursuant to the Civil Code;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our Consolidated Affiliated Entities or the WFOE;
- (d) the execution and performance of the Contractual Arrangements are not required to obtain any approval or authorization from the PRC governmental authorities, except that:
 - (i) the exercise of the option by our WFOE or its designee of its rights under the Exclusive Option Agreements to acquire all or part of the equity interests and/or the assets of our PRC Holdcos is subject to the approvals of and/or registrations with the PRC regulatory authorities respectively;
 - (ii) any share pledge contemplated under the Equity Pledge Agreements is subject to the registration with local administration bureau for market regulation; and
 - (iii) the arbitration awards/interim remedies provided under the dispute restitution provision of the Contractual Arrangements shall subject to the PRC courts’ recognition.
- (e) each of the Contractual Arrangements is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidating committee:
 - (i) the Contractual Arrangements provide that any dispute shall be submitted to the CIETAC for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing. They also provide that the arbitrator may award interim remedies over the shares or assets of our PRC Holdcos or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of our PRC Holdcos) also have jurisdiction for the grant and/or enforcement of the interim remedies against the shares or properties of the Consolidated Affiliated Entities. However, our PRC Legal Advisor has advised that the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and

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- (ii) the Contractual Arrangements provide that the Registered Shareholders of the PRC Holdcos undertake to appoint a committee designated by our WFOE as the liquidation committee upon the winding up of the Consolidated Affiliated Entities to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC Laws.

However, we have been advised by our PRC Legal Advisor that there are uncertainties regarding the interpretation and application of the current and future PRC laws and regulations over the validity of the Contractual Arrangements. Accordingly, there can be no assurance that the PRC regulatory authorities will not take a view that is contrary to or otherwise different from the above opinions of our PRC Legal Advisor in the future. See “Risk Factors — Risks Related to our Corporate Structure”.

Notwithstanding the foregoing, during the interviews with MIIT, NRTA and MCT conducted by the Joint Sponsors’ PRC legal advisor and our PRC Legal Advisor on September 28, October 10 and October 13, 2020, the officers of MIIT, NRTA and MCT confirmed that our Contractual Arrangements would not be challenged by MIIT, NRTA or MCT or subject to penalty imposed by them due to violation of any relevant PRC laws or regulations.

Our PRC Legal Advisor is of the view that (a) the MIIT, NRTA and MCT are the competent regulatory authorities for the Company’s principal business activities and therefore have competent authorities to give the confirmations above; (b) based on these interviews, the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the current applicable PRC laws and regulations; and (c) the adoption of the Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisor, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See “Risk Factors — Risks Related to Our Corporate Structure”.

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ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of Financial Results of our Consolidated Affiliated Entities

According to IFRS 10 — Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own the Consolidated Affiliated Entities, the Contractual Arrangements as disclosed above enable our Company to exercise control over the Consolidated Affiliated Entities.

Under the Exclusive Technical Consultation and Service Agreements, it is agreed that, in consideration of the services provided by WFOE, each of our PRC Holdcos will pay services fees to WFOE. The services fees, subject to WFOE's adjustment, are equal to the entirety of the total consolidated profit of our PRC Holdcos (net of accumulated deficit of the Consolidated Affiliated Entities in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). WFOE may adjust the services scopes and fees at its discretion in accordance with PRC tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities. WFOE also have the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, WFOE has the ability, at its sole discretion, to extract all of the economic benefit of our PRC Holdcos through the Exclusive Technical Consultation and Service Agreements.

In addition, under the Exclusive Technical Consultation and Service Agreements and the Exclusive Option Agreements, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as WFOE's prior written consent is required before any distribution can be made. In the event that the Registered Shareholders of the Consolidated Affiliated Entities receive any profit distribution or dividend from our Consolidated Affiliated Entities, such Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company.

The Contractual Arrangements enable WFOE to exercise effective control over the Consolidated Affiliated Entities and accordingly, WFOE has the right to variable returns from its involvement with the Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are accounted as subsidiaries of the Company for the purpose of the historical financial information for the Track Record Period and the historical financial information of the Consolidated Affiliated Entities for the Track Record Period are consolidated in the historical financial information of the Company for the Track Record Period.

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In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 2.2.1 to the Accountant's Report in Appendix I to this prospectus.

OUR DIRECTORS' VIEW

Based on the above, our Directors are of the view that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in the PRC. Our Directors further believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements will be negotiated on an arm's length basis and entered into between WFOE, our Consolidated Affiliated Entities and the respective Registered Shareholders of the PRC Holdcos; (ii) by entering into the Exclusive Technical Consultation and Service Agreements (as defined below) with WFOE, which is a PRC subsidiary of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Foreign Investment Law

The PRC Foreign Investment Law became effective on January 1, 2020 and replaced the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Owned Enterprise Law (《外資企業法》). The FIL constitutes the legal foundation for foreign investment in the PRC. The FIL is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the FIL, China adopts a system of national treatment plus 2020 Negative List with respect to foreign investment administration, and the 2020 Negative List will be issued by, amended or released upon approval by the State Council, from time to time. The 2020 Negative List sets out the industries in which foreign investments are prohibited or restricted. Foreign investors would not be allowed to make investments in prohibited industries, while foreign investments must satisfy certain conditions stipulated in the 2020 Negative List for investment in restricted industries. Foreign investment and domestic investment in industries outside the scope of the 2020 Negative List shall be treated equally. On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**Implementation Regulations**”) which became effective on January 1,

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2020. The Implementation Regulations provide that foreign investments in sectors on the 2020 Negative List shall comply with special management measures in respect of shareholding, senior management personnel and other matters stipulated under the 2020 Negative List.

The FIL defines the foreign investment as the investment activities directly or indirectly conducted by foreign investors in the PRC, and sets forth the specific situations that should be regarded as foreign investment. Furthermore, the FIL stipulates that foreign investment includes the investment made in the PRC by foreign investors through any other means under the laws, administrative regulations and provisions stipulated by the State Council. Our PRC Legal Advisor confirmed that the FIL does not specify contractual arrangements as a form of foreign investment. In that regard, if there is no other promulgated national laws, administrative regulations or administrative rules prohibiting or restricting the operation of or affecting the legality of contractual arrangements, the FIL will not have a material impact on the Contractual Arrangements and each of the agreements under the Contractual Arrangements, and the legality and validity of the Contractual Arrangements would not be affected. See “Risk Factors — Risks Relating to Our Corporate Structure” for further details of the risks we face relating to our Contractual Arrangements.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- (d) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.