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## CONTRACTUAL ARRANGEMENT

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### PRC REGULATORY BACKGROUND

#### Overview

Foreign investment activities in the PRC are mainly governed by the Foreign Investment Law, Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (the “**Negative List**”) and the Catalog of Industries for Encouraging Foreign Investment (2020 Version) (the “**Encouraging Catalog**”), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalog divide industries into four categories in terms of foreign investment, namely, “encouraged”, “restricted”, “prohibited” and “permitted” (the last category of which includes all industries not listed under the “encouraged”, “restricted” and “prohibited” categories). As advised by our PRC Legal Advisor, a summary of our business/operation that is subject to foreign investment restriction in accordance with the Negative List, the Encouraging Catalog and other applicable PRC laws and regulations and on certain interviews with governmental authorities is set out below (the “**Relevant Businesses**”):

Categories	Our business/operation
<b>“Restricted”</b>	
Value-added telecommunication service business	<p>The principal business of Shanghai SenseTime Technology Development is operating the Group’s Shanghai Lingang AIDC, which is expected to be launched in early 2022. The provision of such services is regarded as the business of internet data center, which falls within the scope of “value-added telecommunication service” under the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) and Telecommunication Business Catalog (《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) (“<b>IDC License</b>”) which is subject to foreign ownership restrictions. Shanghai SenseTime Technology Development has obtained an IDC License.</p> <p>As advised by the PRC Legal Advisor, other than certain exceptions allowed with a telecommunication service enterprise incorporated in Hong Kong or Macau under the Closer Economic Partnership Arrangement, no enterprises which are partly invested or wholly owned by foreign investors are allowed to apply for or hold an IDC License.</p>

For further details of the limitations on foreign ownership in PRC companies conducting the aforementioned business under PRC laws and regulations, see “Regulatory Overview — Regulations on Value-added Telecommunications Services and Foreign Investment Restrictions” and “Risk Factors — Risks Relating to Doing Business in China.”

#### Qualification requirements for value-added telecommunication service business

On December 11, 2001, the State Council promulgated the Administrative Regulations on Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE**”

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**Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold the equity interests in a company holding IDC License unless otherwise required by other PRC laws and regulations. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in and a proven track record of operating value-added telecommunications businesses (the “**Qualification Requirements**”). Foreign investors that meet these requirements must obtain approvals from the ministry of Industry and Information Technology (the “**MIIT**”) and MOFCOM or their authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s annual reports for the past three years, satisfactory proof of the Qualification Requirements and business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC Legal Advisor has advised us that as of the Latest Practicable Date, (i) this guidance memorandum has limited legal or regulatory effect under the PRC laws and (ii) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements, and (iii) the satisfaction by an applicant of Qualification Requirements is subject to the MIIT’s review in substance.

Given that a foreign investor is restricted from holding any equity interest of an entity that holds a IDC License under the current PRC laws and regulations, and also that there exists substantial uncertainties surrounding (a) how the Qualification Requirements can be fulfilled by a foreign investor, (b) the objective criteria under which the Qualification Requirements can be fulfilled, and (c) how long our Group has to wait before it is able to build a proven track record and prior experience Qualification Requirements, we consider that it is not viable for our Company to hold the Consolidated Affiliated Entities directly or indirectly through equity ownership.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in China. We are in the process of expanding our offshore value-added telecommunications business through our overseas subsidiaries. We have committed and will commit financial and other resources and implement all necessary measures to meet the Qualification Requirements, for instance:

- our Group has established an overseas website and registered patents, trademarks and domain names outside of the PRC for the promotion of our businesses overseas; and
- we have incorporated a number of overseas entities for the purpose of expanding our business overseas.

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The respective PRC legal advisors of the Company and of the Joint Sponsors conducted a consultation with the relevant competent government authority, during which the officers of such competent government authority confirmed that in relation to IDC License, (1) a sino-foreign equity joint venture or wholly-owned foreign investment entity will not be granted an IDC License, except for certain foreign investment by investors from Hong Kong Special Administrative Region or Macau Special Administrative Region pursuant and subject to the CEPA Agreements; (2) whether the foreign investors from Hong Kong or Macau may satisfy the Qualification Requirements is subject to a substantive examination and discretion by the relevant authorities on a case-by-case basis. Furthermore, according to the officer of the competent government authority, the applications for IDC Licenses by our Company will be unlikely to be approved under the present circumstances.

Accordingly, subject to the discretion of the competent authority on whether the Group has fulfilled the Qualification Requirements, our PRC Legal Advisor is of the view that based on the above analysis, as of the Latest Practicable Date, (1) to maintain the business operation of Shanghai Qianlun and Shanghai SenseTime Technology Development, in compliance with applicable PRC laws, regulations and the requirements of competent governmental authorities, the Company or any of its subsidiaries overseas may not directly invest in Shanghai Qianlun or Shanghai SenseTime Technology Development, (2) the above steps taken by us are reasonable and appropriate in relation to the Qualification Requirements. However, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to the above opinion of our PRC Legal Advisor.

We will, as applicable and when necessary, disclose the progress of our overseas expansion plans and any updates to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the Listing. We will also make periodic inquiries to relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

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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 as outlined above, we do not directly own any equity interest in our Consolidated Affiliated Entities. Our Consolidated Affiliated Entities were set up in 2020, where Shanghai SenseTime Technology Development is wholly-owned by Shanghai Qianlun, which is held by Mr. Yang Fan and Mr. Ma Kun as to 50% each (Mr. Yang Fan and Mr. Ma Kun are collectively known as the “**Individual Shareholders**”). Mr. Yang Fan is our co-founder and has been our vice president since November 2014. He is one of our senior management and is primarily responsible for strategic planning and corporate development of our Group, in particular he assists Dr. Xu Li and Mr. Xu Bing in various project and product management (for example he was responsible for the set up of the Shanghai Lingang AIDC and the former chairman of our Data Security and Personal Information Protection Management Committee) and is the head of our strategic synergy department and product committee chairman. See “Directors and Senior Management” for details of Mr. Yang Fan. Mr. Ma Kun is our co-founder and has been appointed the

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technical executive director of our Company since June 2015. He is primarily responsible for the product development of AI system and smart devices, in particular, he works with Dr. Wang in the research and development of the Group's computer vision & deep learning technology and use case. Before joining our Group, Mr. Ma Kun worked at Wochacha Information Technology (Shanghai) Ltd. (我查查信息技術(上海)有限公司) and was a PhD candidate in the Electronic Engineering Program at the Chinese University of Hong Kong with a master degree in engineering from Xidian University (西安電子科技大學).

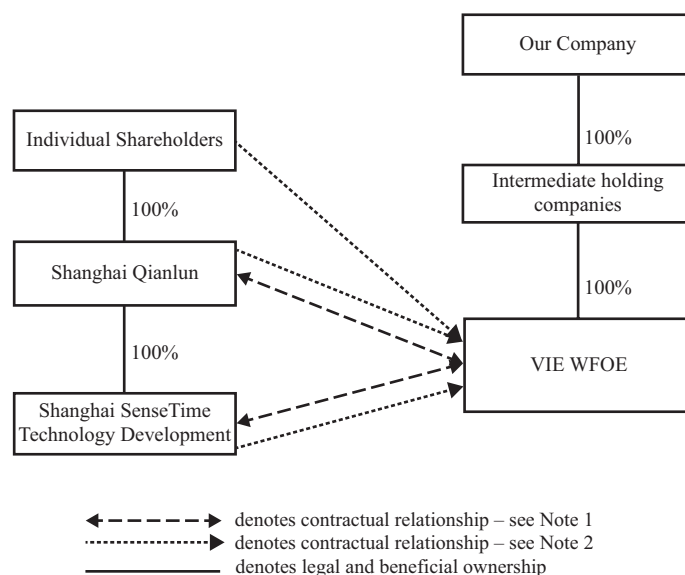
In view of the aforementioned PRC regulatory background, after consultation of the PRC legal matters and regime with our PRC Legal Advisor, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangement between the VIE WFOE, on the one hand, and our Consolidated Affiliated Entities and the their respective shareholders, on the other. The Contractual Arrangement allows the results of operations and assets and liabilities of our Consolidated Affiliated Entities to be consolidated into our results of operations and assets and liabilities under IFRS as if they were wholly-owned subsidiaries of our Group. The total revenue of the Group's Consolidated Affiliated Entities account for nil, nil, nil and approximately 0.2% of the Group's total revenue and the total assets of the Group's Consolidated Affiliated Entities account for nil, nil, approximately 1.2% and 4.5% of the Group's total assets, for the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 respectively. Based on the above, we believe that the Contractual Arrangement is narrowly tailored, as it is used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in the PRC.

Our Directors believe that the Contractual Arrangement is fair and reasonable because: (i) the Contractual Arrangement was freely negotiated and entered into between the VIE WFOE and our Consolidated Affiliated Entities; (ii) by entering into the exclusive business cooperation agreement with the VIE WFOE, which is our wholly-owned subsidiary incorporated in PRC, 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.

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*Notes:*

- (1) Shanghai Yuqin provides business support, technical and consulting services in exchange for service fees from Shanghai Qianlun and Shanghai SenseTime Technology Development respectively. Please refer to “— Our Contractual Arrangement — Exclusive Business Cooperation Agreements.”
- (2) The Individual Shareholders executed exclusive options agreement in favor of Shanghai Yuqin, to acquire all or part of the equity interests in and all or part of the assets in Shanghai Qianlun and Shanghai SenseTime Technology Development correspondingly. See “— Our Contractual Arrangement — Exclusive Options Agreements.”

The Individual Shareholders executed powers of attorney in favor of Shanghai Yuqin, to exercise all shareholders’ rights in Shanghai Qianlun and Shanghai SenseTime Technology Development correspondingly. See “— Our Contractual Arrangement — Powers of Attorney.”

The Individual Shareholders granted first priority security interests in favor of Shanghai Yuqin, over the entire equity interests in Shanghai Qianlun and Shanghai SenseTime Technology Development correspondingly. See “— Our Contractual Arrangement — Equity Pledge Agreement.”

### **Circumstances under which we will unwind the Contractual Arrangement**

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 VIE WFOE will exercise the call option under the exclusive options agreement to acquire the equity interest/assets of the Consolidated Affiliated Entities and unwind the Contractual Arrangement subject to any application or approval procedures and the approval by the relevant governmental authorities.

### **Summary of the agreements under the Contractual Arrangement and other key terms thereunder**

A description of each of the specific agreements that comprise the Contractual Arrangement is set out below.

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### *Exclusive Business Cooperation Agreement*

As part of the Contractual Arrangement, the Consolidated Affiliated Entities and the VIE WFOE have entered into exclusive business cooperation agreement. Pursuant to the exclusive business cooperation agreement, the Consolidated Affiliated Entities agreed to engage the VIE WFOE as its exclusive provider of business support, technical and consult services, including but not limited to, technical services, network support, business consultation, licensing of intellectual properties, system integration, product research and development, system maintenance and management consultancy services. In exchange for these services, the Consolidated Affiliated Entities shall pay a service fee, which equal to its profit before tax, deducting any of its accumulated losses from the preceding fiscal year, costs, expenses, tax and other statutory contribution in relation to the respective fiscal year, which will be wired to the designated account of the VIE WFOE upon issuance of payment notification by the VIE WFOE. The VIE WFOE enjoys all the economic benefits derived from the businesses of the Consolidated Affiliated Entities and bears the relevant portion of the business risks of the Consolidated Affiliated Entities. If the Consolidated Affiliated Entities run into financial deficit or suffer severe operation difficulties, the VIE WFOE will provide financial support to the Consolidated Affiliated Entities.

The exclusive business cooperation agreement also provides that, among others, (a) the VIE WFOE has the exclusive proprietary rights to all intellectual property rights developed or created by the VIE WFOE or the Consolidated Affiliated Entities during the performance of the exclusive business cooperation agreement; (b) the Consolidated Affiliated Entities shall not transfer, assign, pledge, license or otherwise encumber its rights, ownership, interests and all intellectual property rights, including but not limited to copyright, patents, patent applications, trademarks, trade names, branding, software, technical secrets, trade secrets, all associated goodwill, domain names and others; (c) the Consolidated Affiliated Entities shall appoint persons designated by the VIE WFOE as their respective directors, general manager, chief financial officer and other senior management and shall not remove or dismiss such persons unless with the prior written consent of the VIE WFOE. The Consolidated Affiliated Entities shall procure their directors and senior management to act according to the instruction of the VIE WFOE; (d) the VIE WFOE has the right to provide the services on behalf of the Consolidated Affiliated Entities and the Consolidated Affiliated Entities shall provide all necessary authorization; (e) the VIE WFOE has the right to inspect the accounts of the Consolidated Affiliated Entities regularly or at any time; and (f) the Consolidated Affiliated Entities shall pass the custody, use and control of the certificates and seals (including business license, certificate of organization code, company seal, contractual seal, financial seal and legal representative seals) which are key to their business and financial operation (including bank accounts) to persons designated by the VIE WFOE.

In addition, absent the prior written consent of the VIE WFOE, during the term of the exclusive business cooperation agreement, with respect to the services and other matters thereunder, the respective Consolidated Affiliated Entity shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed under the exclusive business cooperation agreements with any third party. The VIE WFOE may appoint other parties, who may enter into certain agreements with the respective Consolidated Affiliated Entity, for the provisions of the services under the exclusive business cooperation agreements.

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The exclusive business cooperation agreement is for an initial term of ten years and is extended automatically until (i) the VIE WFOE holds the entire equity interests or the entire assets of the respective Consolidated Affiliated Entity under the exclusive option agreement and that the VIE WFOE is able to conduct the business of the respective Consolidated Affiliated Entity legally or (ii) the VIE WFOE serves a notice stipulating the end of the term. It shall remain effective unless terminated in writing by the VIE WFOE with 30 days' notice. The Consolidated Affiliated Entities have no right to terminate the exclusive business cooperation agreement unilaterally.

### *Exclusive Options Agreement*

As part of the Contractual Arrangement, the Consolidated Affiliated Entities and the VIE WFOE have entered into an exclusive options agreement. Pursuant to the exclusive options agreement, the VIE WFOE has the irrevocable and exclusive right to purchase, or to designate one or more persons to purchase, from the Individuals Shareholders (i) all or any part of their equity interests in the respective Consolidated Affiliated Entity and/or (ii) all or any part of the assets of the respective Consolidated Affiliated Entity at any time and from time to time in the VIE WFOE's absolute discretion to the extent permitted by PRC laws. The consideration shall be a nominal price or other price approved by the VIE WFOE, while if the relevant governmental authority or PRC Law requires that the consideration shall be other price, the consideration shall be the lowest price as permitted under applicable PRC laws or other price approved by the VIE WFOE. The Individual Shareholders and the respective Consolidated Affiliated Entity have also undertaken that, they will return to the VIE WFOE or an entity designated by it any consideration they receive in the event that any of the options under the exclusive options agreements is exercised.

The Individual Shareholders and the respective Consolidated Affiliated Entity among other things, have covenanted in the exclusive options agreement that:

- (a) without the prior written consent of the VIE WFOE, the Individual Shareholders shall not, and the respective Consolidated Affiliated Entity's shareholders meeting and/or the board of directors (or the executive director) shall not approve to sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in the respective Consolidated Affiliated Entity, or allow the encumbrance thereon of any security interest, except for the equity pledge agreement;
- (b) without the prior written consent of the VIE WFOE, the respective Consolidated Affiliated Entity shall not, and the Individual Shareholders shall procure them not to, sell, transfer, pledge or dispose of in any manner any assets of the respective Consolidated Affiliated Entity or the legal or beneficial interest in the business or revenues of the respective Consolidated Affiliated Entity, or allow the encumbrance thereon;
- (c) they shall perform their obligations under the exclusive business operation agreement by following good financial and business standards and practices and prudently and effectively operating their business and handling their affairs. They shall refrain from any action or omission that could possibly have material adverse effect on the respective Consolidated Affiliated Entity's business operation, asset value and/or reputation;



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- (d) the respective Consolidated Affiliated Entity shall, and the Individual Shareholders shall use their best effort to, maintain the respective Consolidated Affiliated Entity's corporate existence. Unless otherwise required by the applicable PRC Law, the respective Consolidated Affiliated Entity shall not be liquidated, save as agreed by the VIE WFOE in writing;
- (e) the respective Consolidated Affiliated Entity shall, and the Individual Shareholders shall use their best effort to, maintain the legality and validity of all necessary government licenses and permits and renew them on time according to law;
- (f) the respective Consolidated Affiliated Entity shall, and the Individual Shareholders shall procure, appoint any persons or remove any persons designated by the VIE WFOE as the director, supervisor and/or senior management of the respective Consolidated Affiliated Entity and comply with the relevant corporate and filing procedures;
- (g) the respective Consolidated Affiliated Entity shall, and the Individual Shareholders shall procure, approve in the shareholders meeting and/or the board meeting of the respective Consolidated Affiliated Entity of resolutions as instructed by the VIE WFOE, including the transfer of the shares and or assets pursuant to the exclusive option agreement and to take any and all other actions as the VIE WFOE requests;
- (h) the respective Consolidated Affiliated Entity shall, and the Individual Shareholders shall procure, provide the VIE WFOE with information on respective Consolidated Affiliated Entity's business operations and financial condition at the request of the VIE WFOE, and the VIE WFOE shall have the right to supervise and evaluate the assets of the respective Consolidated Affiliated Entity to confirm whether it has control of the assets of the respective Consolidated Affiliated Entity. If the VIE WFOE considers that the operation activities of the respective Consolidated Affiliated Entity affect the value of its assets or affect its control of the respective Consolidated Affiliated Entity, the respective Consolidated Affiliated Entity and the Individual Shareholders shall unconditionally accept the legal counsels or other professionals engaged by the VIE WFOE to deal with such issues;
- (i) without the prior written consent of the VIE WFOE, the respective Consolidated Affiliated Entity shall not, and the Individual Shareholders shall procure them not to, in any manner distribute dividends to their shareholders, provided that upon the written request of the VIE WFOE, the respective Consolidated Affiliated Entity shall immediately distribute all distributable profits to their shareholders; the Individual Shareholders shall not request the respective Consolidated Affiliated Entity to in any manner distribute dividends or other forms of profits distribution on the equity interests owned by them, and raise such relevant board resolution. In any event, if the Individual Shareholders receive any income, profit distribution or dividend, they shall promptly forgo the income, profit distribution or dividend and transfer or pay such income, profit distribution or dividend to the VIE WFOE or any other person designated by the VIE WFOE to the extent permitted under applicable PRC laws;



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- (j) without the prior written consent of the VIE WFOE, the Consolidated Affiliated Entity shall not, and the Individual Shareholders shall procure them not to, cause or permit the respective Consolidated Affiliated Entity to merge, consolidate with, acquire or invest in any person, or in any manner supplement, change or amend their constitutional documents, increase or decrease their registered capital, or change the structure of their registered capital in other manner or liquidate the respective Consolidated Affiliated Entity;
- (k) they shall immediately notify in writing the VIE WFOE immediately upon they become aware of the occurrence or possible occurrence of (a) the respective Consolidated Affiliated Entity defaulting on its loan, entering or intending to enter bankruptcy liquidation procedures, deciding to dissolve or being dissolved; (b) cease operation or its licenses and/or qualification being revoked; (c) any litigation, arbitration or the shareholders having any disputes with third parties over their assets; (d) the Individual Shareholders having any litigation, arbitration or administrative proceedings relating to the respective Consolidated Affiliated Entity's assets, business or revenue and equity interests held by the Individual Shareholders; and shall cooperate with the VIE WFOE to take all necessary action, execute all necessary legal documents to protect the interests of the VIE WFOE in the exclusive options agreement;
- (l) without the prior written consent of the VIE WFOE, the Consolidated Affiliated Entity shall not, and the Individual Shareholders shall procure them not to, execute any material contract with a value above RMB100,000, except the contracts executed in the ordinary course of business and contracts executed with the parent company of the VIE WFOE;
- (m) to maintain the ownership by the respective Consolidated Affiliated Entity of all of its assets, the Consolidated Affiliated Entity shall, and the Individual Shareholders shall procure them to, execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- (n) they shall immediately notify the VIE WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to its assets, business or revenue and equity interests held by the Individual Shareholders in the respective Consolidated Affiliated Entity and take all necessary actions as reasonably requested by the VIE WFOE;
- (o) without the prior written consent of the VIE WFOE, the respective Consolidated Affiliated Entity shall not, and the Individual Shareholders shall procure them not to, incur, inherit, guarantee or assume any debt, except for debts incurred in the ordinary course of business other than payables incurred by a loan or debts disclosed to the VIE WFOE and as agreed by it;
- (p) without the prior written consent of the VIE WFOE, the respective Consolidated Affiliated Entity shall not, and the Individual Shareholders shall procure them not to,

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cause the respective Consolidated Affiliated Entity to provide any person with any loan, financial assistance, mortgage, pledge and other security in any form, or allow any mortgage or pledge by any third parties over its equity interests or assets.

The exclusive options agreement is for an initial term of ten years and is extended automatically until (i) the VIE WFOE holds the entire equity interests or the entire assets of the respective Consolidated Affiliated Entity under the exclusive option agreement and that the VIE WFOE is able to conduct the business of the respective Consolidated Affiliated Entity legally or (ii) the VIE WFOE serves a notice stipulating the end of the term. It shall remain effective unless terminated in writing by the VIE WFOE. The Consolidated Affiliated Entities and the Individual Shareholders have no right to terminate the exclusive options agreements unilaterally. In addition, the Individual Shareholders have executed and passed to the VIE WFOE transfer agreements in blank in favor of the VIE WFOE in relation to the Individual Shareholders' equity interests in each of the Consolidated Affiliated Entity.

### *Powers of Attorney*

The Individual Shareholders have executed the power of attorney, each of which contains similar terms and conditions, whereby the Individual Shareholders appointed the VIE WFOE, any directors authorized by the VIE WFOE or his/her successors or a liquidator replacing such person as their exclusive agent and attorney to act on their behalf on all matters concerning the respective Consolidated Affiliated Entity and to exercise all of its rights as a registered shareholder of the respective Consolidated Affiliated Entity in accordance with PRC laws and the articles of the respective Consolidated Affiliated Entity. These rights include (i) the right to propose, convene and attend shareholders meetings; (ii) the rights to vote but are not limited to sell, transfer, pledge or dispose of part or all of the equity and participate in the distribution of profits of the respective Consolidated Affiliated Entity or any other forms of distributable benefits; (iii) the right to designate and appoint the legal representative (chairperson), directors, supervisors, the chief executive officer (or general manager) and other senior management members of the respective Consolidated Affiliated Entity; (iv) the right to sign the documents related to the exercise of the shareholders' right to the equity interests in the respective Consolidated Affiliated Entity and file documents with the relevant companies registry; (v) the right to exercise voting rights on the bankruptcy, liquidation, dissolution or termination of the respective Consolidated Affiliated Entity on behalf of the Individual Shareholders; (vi) the right to distribute the remaining assets after the bankruptcy, liquidation, dissolution or termination of the respective Consolidated Affiliated Entity; (vii) the right to decide on the submission and registration of documents regarding the respective Consolidated Affiliated Entity to governmental authorities; and (viii) the right to exercise any shareholder's right to dispose of assets of the respective Consolidated Affiliated Entity according to law, including but not limited to the right to manage its assets, draw on its revenue, and obtain its assets.

The powers of attorney shall continue to remain effective until terminated in writing by the VIE WFOE or the VIE WFOE holds the entire equity interests or the entire assets of the respective Consolidated Affiliated Entity under the relevant exclusive option agreement and that the VIE WFOE is able to conduct the business of the respective Consolidated Affiliated Entity legally.

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### *Equity Pledge Agreement*

As part of the Contractual Arrangement, the respective Individual Shareholders have entered into the equity pledge agreements with the VIE WFOE and Consolidated Affiliated Entity, each of which contains similar terms and conditions. Pursuant to the equity pledge agreements, the Individual Shareholders agreed to pledge as all of their respective equity interests in the Consolidated Affiliated Entities that they own, including any interest or dividend paid for the shares, to the VIE WFOE as collateral security for any or all of their payments due to the VIE WFOE and to secure performance of their obligations under the Contractual Arrangement.

The pledge in favor of the VIE WFOE takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Individual Shareholders and the respective Consolidated Affiliated Entity under the Contractual Arrangement have been fully performed and such having been confirmed by the VIE WFOE.

Should an event of default (as provided in the equity pledge agreement) occur, unless it is successfully resolved to the VIE WFOE's satisfaction within 30 days upon being notified, the VIE WFOE is entitled to all rights to the remedies for breach of contract, including but not limited to: (1) the right to demand that the respective Consolidated Affiliated Entity immediately pay all outstanding payments due and all other amounts due and payable to the pledgee, and/or repay loan; and/or (2) the right to have priority in compensation with the proceeds from the discount of all or part of the equity interests, or the auction or disposal of the equity interests.

The pledges under the equity pledge agreements have been duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

### *Other key terms thereunder*

#### *Dispute resolution*

The Contractual Arrangement stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after a party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the Shanghai International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

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The Contractual Arrangement also provides that (i) the arbitral tribunal may award remedies over the equity interests, assets or property interest of the Consolidated Affiliated Entities, compulsory relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the Consolidated Affiliated Entities; (ii) a court of competent jurisdiction may grant interim relief to a party when requested for the purpose of preserving the assets and property or enforcement measures, subject to the requirements under the PRC laws; and (iii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and other jurisdictions (being the place of domicile of the Consolidated Affiliated Entities and where the principal assets of the Consolidated Affiliated Entities are located) also have jurisdiction over the foregoing matters.

Our PRC Legal Advisor has advised that (i) the arbitral tribunal normally would not grant such kind of injunctive relief or winding up order of the Consolidated Affiliated Entities under PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in mainland China; but (iii) even if the abovementioned 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 Arrangement.

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

### *Succession*

The provisions set out in the Contractual Arrangement are also binding on the successors of the Individual Shareholders, as if the successors were signing parties to the Contractual Arrangement. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangement. In case of a breach, the VIE WFOE can enforce its rights against the successors. Pursuant to the Contractual Arrangement, any inheritor of the Individual Shareholders shall inherit any and all rights and obligations of the Individual Shareholders under the Contractual Arrangement as a result of their death, loss of capacity, marriage, divorce, bankruptcy or under other circumstances which would affect their exercise of equity interest in the Consolidated Affiliated Entities, as if the inheritor was a signing party to such Contractual Arrangement.

According to the terms of the exclusive option agreement, each of the Individual Shareholders has undertaken, in the event of death or any other event which causes the inability of such Individual Shareholder to perform their day-to-day obligations, or any other events that could possibly affect his/her holding or exercise of the rights and obligations in the Consolidated Affiliated Entities, his/her successor shall be deemed to be party to the Contractual Arrangement, who would assume all rights and obligations under the Contractual Arrangement.

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In addition, the spouses of the Individual Shareholders had respectively executed an irrevocable undertaking in respect of the Consolidated Affiliated Entities respectively, whereby each of them expressly and irrevocably acknowledged and has undertaken that (i) any equity interests in the respective Consolidated Affiliated Entity, as held by the respective Individual Shareholder, will not be claimed as their communal properties; (ii) she/he will not have any claim on the interests of the respective Consolidated Affiliated Entity obtained through the Contractual Arrangement; (iii) she/he has never participated and will not participate in the operation or management of the respective Consolidated Affiliated Entity.

### *Arrangements to address potential conflicts of interest*

The Individual Shareholders have undertaken that, (a) in any circumstances, they shall not commit, directly or indirectly, actively or passively, any conduct, measures, action or omission against the purpose and intention of the Contractual Arrangement, that lead or may lead to any conflicts of interests between the Consolidated Affiliated Entities and our Company (including its subsidiaries) and (b) if during their performance of the Contractual Arrangement, there is a conflict of interests between the Individual Shareholders and our Company (including its subsidiaries), the Individual Shareholders shall protect the legal interests of the VIE WFOE under the Contractual Arrangement and follow the instructions of our Company.

In addition, the Individual Shareholders have granted a power of attorney in favor of the VIE WFOE, any directors authorized by the VIE WFOE or his/her successors, or a liquidator replacing the VIE WFOE's directors as their exclusive agent and attorney to act on their behalf on all matters concerning the Consolidated Affiliated Entities and to exercise all of its rights as a registered shareholder of the Consolidated Affiliated Entities in accordance with PRC laws and the articles of the Consolidated Affiliated Entities, respectively.

### *Loss sharing*

None of the agreements constituting the Contractual Arrangement provides that our Company or its wholly-owned PRC subsidiaries, the VIE WFOE, are obligated to share the losses of the Consolidated Affiliated Entities, but if the respective Consolidated Affiliated Entity suffers any losses or material difficulties of business, the VIE WFOE may provide financial support as permitted under PRC laws at its discretion to the respective Consolidated Affiliated Entity under the terms of the exclusive business cooperation agreement. Further, each of the Consolidated Affiliated Entities is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or the VIE WFOE is not expressly required to share the losses of the respective Consolidated Affiliated Entity or provide financial support to the respective Consolidated Affiliated Entity. Despite the foregoing, given that our Group conducts the relevant businesses in the PRC through the Consolidated Affiliated Entities which hold the requisite PRC licenses and approvals, and that the Consolidated Affiliated Entities' results of operations and assets and liabilities are consolidated into our Group's results of operations and assets and liabilities under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if the Consolidated Affiliated Entities suffered losses.

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### *Liquidation*

Pursuant to the exclusive option agreement, in the event of a mandatory liquidation required by PRC laws, the respective Consolidated Affiliated Entity shall sell all of its assets to the extent permitted by PRC laws to the VIE WFOE or an entity designated by it, at the lowest selling price permitted by applicable PRC laws. Any obligation for the VIE WFOE to pay the respective Consolidated Affiliated Entity as a result of such transaction shall be waived by the respective Consolidated Affiliated Entity and any profits arising from the above transaction shall be paid to the VIE WFOE or the entity designated by the VIE WFOE in partial satisfaction of the service fees under the exclusive business cooperation agreement, as applicable under the then current PRC laws.

### *Termination*

The exclusive business cooperation agreement provides that the initial term is ten years and the term is extended automatically until (i) the VIE WFOE holds the entire equity interests or the entire assets of the respective Consolidated Affiliated Entity under the exclusive option agreement and that the VIE WFOE is able to conduct the business of the respective Consolidated Affiliated Entity legally or (ii) the VIE WFOE serves a notice stipulating the end of the term. In addition, pursuant to the exclusive business cooperation agreement, the VIE WFOE has the unilateral right to terminate the agreement at any time by providing a 30 days' notice in writing to the respective Consolidated Affiliated Entity. The Consolidated Affiliated Entities have no right to terminate the exclusive business cooperation agreement unilaterally. The term of the exclusive option agreement, the powers of attorney and the equity pledge agreement shall have the same term as the exclusive business cooperation agreement.

### *Insurance*

The Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangement.

### *Company's confirmation*

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

### **Legality of the Contractual Arrangement**

Based on the above, we believe that the Contractual Arrangement is narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations. Our PRC Legal Advisor has also advised that, as of the Latest Practicable Date:

- (1) each of the VIE WFOE and the Consolidated Affiliated Entities has obtained all necessary corporate approvals and authorizations to execute and perform the Contractual Arrangement;

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- (2) each of the agreements is binding on the parties thereto and none of them would be deemed as “concealment of illegal intentions within a lawful form”, nor be void under Contract Law of the People’s Republic of China nor violate the mandatory provisions of the Civil Code of the PRC (《中華人民共和國民法典》) (the “**Civil Code**”) which would render the agreements become invalid pursuant to the Civil Code;
- (3) the Contractual Arrangement does not violate any provisions of the articles of association of our Consolidated Affiliated Entities or the VIE WFOE;
- (4) the execution and performance of the Contractual Arrangement are not required to obtain any approval or authorization from the PRC governmental authorities, except that:
  - a. the exercise of the option by the VIE WFOE or its designee of its rights under the exclusive option agreement to acquire all or part of the equity interests and/or the assets of our Consolidated Affiliated Entities is subject to the approvals of and/or registrations with the PRC regulatory authorities respectively;
  - b. any share pledge contemplated under the equity pledge agreement is subject to the registration with local administration bureau for market regulation; and
  - c. the arbitration awards/interim remedies provided under the dispute restitution provision of the Contractual Arrangement shall subject to the PRC courts’ recognition.
- (5) the Contractual Arrangement is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution:
  - a. the Contractual Arrangement provides that any dispute shall be submitted to Shanghai International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai. It also provides that the arbitrator may award interim remedies over the shares or assets of the Consolidated Affiliated Entities 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 mainland China (being the place of incorporation of our Consolidated Affiliated Entities) 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 mainland China.

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



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the validity of the Contractual Arrangement, as well as whether we or our Consolidated Affiliated Entities can obtain any of the approvals that may be required by PRC regulatory authorities from time to time. 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 Relating to our Corporate Structure” and “Risk Factors — Risks Relating to Doing Business in China.”

Notwithstanding the foregoing, according to the query and confirmation during the interview in relation to the IDC License with the competent authority conducted by the Joint Sponsors’ PRC legal advisor and our PRC Legal Advisor and the above analysis, our PRC Legal Advisor is of the view that our Contractual Arrangement would not be challenged 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 authorities being interviewed and consulted are the competent regulatory authorities for the Consolidated Affiliated Entities’ principal business activities and therefore have competent authorities to give the confirmations above; (b) based on the aforementioned interview as well as their understanding of applicable PRC laws and regulations, the adoption of the Contractual Arrangement is unlikely to be deemed ineffective or invalid under the current applicable PRC laws and regulations; and (c) the adoption of the Contractual Arrangement does not constitute a breach of the relevant mandatory requirements of PRC laws and regulations as of the Latest Practicable Date.

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

## DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

### Foreign Investment Law

The PRC Foreign Investment Law (the “FIL”) 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

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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》) which became effective on January 1, 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. The FIL does not specify contractual arrangement as a form of foreign investment. In that regard, as advised by our PRC Legal Advisor, as of the Latest Practicable Date 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 arrangement, the FIL will not have a material impact on the Contractual Arrangement and each of the agreements under the Contractual Arrangement, and the legality and validity of the Contractual Arrangement would not be adversely affected.

However, as advised by our PRC Legal Advisor, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws. Accordingly, PRC regulatory authorities or courts may take a view that is contrary to the opinion of our PRC Legal Advisor. It is uncertain whether any new PRC laws relating to contractual arrangement will be adopted, what the laws would provide. See “Risk Factors — Risks Relating to Our Corporate Structure” and “Risk Factors — Risks Relating to Doing Business in China” for further details of the risks we face relating to our Contractual Arrangement.

### IMPLEMENTATION OF AND COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENT

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

- (1) major issues arising from the implementation and compliance with the Contractual Arrangement or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (2) our Board will review the overall performance of and compliance with the Contractual Arrangement at least once a year;
- (3) our Company will disclose the overall performance and compliance with the Contractual Arrangement in our annual reports; and

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- (4) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangement, review the legal compliance of the VIE WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangement.

### ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENT

#### Consolidation of financial results of Consolidated Affiliated Entities

Under the exclusive business cooperation agreement, it was agreed that, in consideration of the services provided by the VIE WFOE, the Consolidated Affiliated Entities shall pay services fees to the VIE WFOE accordingly. The services fee shall equal to Consolidated Affiliated Entities' profit before tax, deducting any accumulated losses of Consolidated Affiliated Entities and its subsidiaries from the preceding fiscal year, costs, expenses, tax and other statutory contribution in relation to the respective fiscal year. VIE WFOE has the right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities.

In addition, under the exclusive business cooperation agreement and the exclusive options agreement, the VIE WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Individual Shareholders as VIE WFOE's prior written consent is required before any distribution can be made. If the Individual Shareholders receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the services fee under the exclusive business cooperation agreement, such income, profit distribution or dividend to VIE WFOE or any other person designated by VIE WFOE to the extent permitted under applicable PRC laws.

As a result of the Contractual Arrangement between the VIE WFOE, Consolidated Affiliated Entities, and the Individual Shareholders, the VIE WFOE is able to effectively control, recognize and receive substantially all the economic benefit of the business and operations of the Consolidated Affiliated Entities respectively. Accordingly, the Consolidated Affiliated Entities are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of the Consolidated Affiliated Entities is disclosed in Note 2.2(a)(i) to the Accountant's Report set out in Appendix I.