

CONTRACTUAL ARRANGEMENTS

PRC REGULATORY BACKGROUND

Overview

Foreign investment activities in the PRC are mainly governed by the Guidance Catalog of Industries for Encouraged Foreign Investment (2020 Edition) (《鼓勵外商投資產業目錄》(2020年版)) (the “**Catalog**”) and the Special Administrative Measures for Foreign Investment Access (Negative List) (2020 Edition) (《外商投資准入特別管理措施(負面清單)》(2020年版)) (the “**Negative List**”), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and other relevant laws set forth the industries in which foreign investments are encouraged, restricted and prohibited. Industries that are not listed in any of these three categories are generally open to foreign investment unless otherwise specifically restricted by other PRC rules and regulations. As advised by our PRC Legal Advisor, a summary of our business/operation that is subject to foreign investment restriction or prohibition in accordance with the Negative List is set out below (the “**Relevant Businesses**”):

<u>Categories</u>	<u>Our business / operation</u>
“Prohibited” Internet cultural business	<p>The principal business of QC Digital and QC Cultural involves the publication and operation of games through mobile apps and websites, which falls within the scope of “internet cultural activities” under the Provisional Regulations for the Administration of Internet Culture (《互聯網文化管理暫行規定》). The Company plans to further expand its business and operations in Chengdu, a city with competitive game operation talent pool and government’s support and attention in the development of the internet industry. As the first step of the expansion plan, the Company established QC Chengdu Interactive, QC Chengdu Media and QC Chengdu Software in Chengdu Hi-tech Industrial Development Zone in August 2021. Similar to QC Digital, QC Chengdu Interactive, QC Chengdu Media and QC Chengdu Software will be engaging in the business of publication and operation of games which falls within the scope of “internet cultural activities” under the Provisional Regulations for the Administration of Internet Culture (《互聯網文化管理暫行規定》).</p> <p>According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business (except for music).</p>
“Restricted” Value-added telecommunication services business	<p>The principal business of QC Digital and QC Cultural involves publication and operation of games through mobile apps and websites, which falls within the scope of “value-added telecommunication service” under the Telecommunication Regulations (《電信條例》). Our newly established PRC subsidiaries, QC Chengdu Interactive, QC Chengdu Media and QC Chengdu Software, plan to engage in the business of publication and operation of games, which falls within the scope of “value-added telecommunications service” under the Telecommunication Regulations (《電信條例》).</p> <p>According to the applicable PRC laws, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business (except for electronic commerce, domestic multi-party communication, store-and-forward, and call center). Each of QC Digital and QC Cultural holds a value-added telecommunications business operating license (within the business scope of internet content provider) (the “ICP License”) for the provision of internet content issued by the local counterpart of the MIIT in Fujian Province.</p>

As advised by our PRC Legal Advisor, the principal business of QC Digital and QC Cultural, and the business to be conducted by QC Chengdu Interactive, QC Chengdu Media and QC Chengdu Software, being the publication and operation of games through mobile apps and websites falls within the scope of both (i) internet cultural business, which according to the Negative List foreign investments are prohibited to operate; and (ii) “value-added telecommunication service” under the Telecommunications Regulations (《電信條例》), where

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foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business. We believe that our internet cultural business and value-added telecommunication services business are fundamental components and inseparable parts of our game operation business because (i) as confirmed by our PRC Legal Advisor, online games operation business, according to the Provisional Regulations for the Administration of Internet Culture, which is an “internet cultural activity” where foreign ownership is prohibited pursuant to the Negative List; and (ii) the value-added telecommunication services business, along with the internet cultural business, which involves the works and processes as detailed in our game operation business, forms an integral part of our game services. For example, we generate game operating revenues primarily from the sales of in-game virtual items which, as advised by our PRC Legal Advisor, also falls within the scope of “value-added telecommunication services business” under the Telecommunications Regulations. Accordingly, we believe, and our PRC Legal Advisor and the Joint Sponsors concur, that it is impractical for the Company to separate internet cultural business and value-added telecommunication services business from its game operation business.

For further details of the limitations on foreign ownership in PRC companies conducting the above businesses under PRC laws and regulations, see “Regulatory Overview.”

On May 26, 2021, a series of Contractual Arrangements have been entered into by, among others, WFOE, QC Digital and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our PRC Consolidated Affiliated Entities. The existing agreements underlying such Contractual Arrangements comprise: (i) Exclusive Business Cooperation Agreement; (ii) Exclusive Option Agreement; (iii) Equity Pledge Agreement; and (iv) Voting Rights Proxy Agreement and Powers of Attorney.

We believe that the Contractual Arrangements are narrowly tailored for the following reasons:

- (i) as of the Latest Practicable Date, each of the PRC Consolidated Affiliated Entities (except for QC Chengdu Interactive, QC Chengdu Media and QC Chengdu Software which plan to apply for ICP Licenses once such subsidiaries satisfy the relevant application requirements) held a valid ICP License. As confirmed by our PRC Advisor, online games operation business, according to the Provisional Regulations for the Administration of Internet Culture, which is an “internet cultural activity” where foreign ownership is prohibited pursuant to the Negative List. We can only conduct Relevant Businesses through our PRC Consolidated Affiliated Entities; and
- (ii) as of the Latest Practicable Date, companies with business which are not subject to any foreign investment restrictions or prohibitions, namely WFOE, Hainan Qingci, Hainan Qingying, QC Shanghai Culture and Shanghai Qingsi, are held indirectly by our Company pursuant to the Reorganization such that the Contractual Arrangements are, and will continue to remain, narrowly tailored under the current PRC laws and regulations.

Qualification requirements

Value-added telecommunication service business

On December 11, 2001, the State Council of the PRC promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including internet information services. In addition, a foreign investor who invests in value-added telecommunications business in the PRC must possess prior experience in, and a proven track record of, operating value-added telecommunications businesses overseas (the “**Qualification Requirements**”). Foreign investors that meet these requirements must obtain approvals from the MIIT and/or its 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 requirements for establishing foreign-invested value-

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added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, its foreign investor’s previous value-added telecommunication business track record, such as previous permit, filing or experience of operating well-known websites or Apps or previous telecommunications business licenses issued by the relevant local authorities and satisfactory proof of the Qualification Requirements. As advised by our PRC Legal Advisor, the guidance memorandum does not provide clear guidance on how such filing requirement can be fulfilled, and does not provide any further interpretation or guidance on more proof or record 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, no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements.

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 PRC Consolidated Affiliated Entities where the relevant PRC law allow foreign investors to invest and to hold a majority interest in value-added telecommunications business through our offshore subsidiaries.

With the aim to meet the Qualification Requirements:

- (i) as of the Latest Practicable Date, we have launched certain games such as *Gumballs & Dungeons* (不思議迷宮) and *Ares Virus* (阿瑞斯病毒) in various language and versions worldwide through our subsidiary or our international game publisher partners. We plan to continue to launch our games in multiple languages and geographical markets;
- (ii) we have established a broad user base overseas. As of the Latest Practicable Date, our games had been published in many overseas markets including Hong Kong, Macau, Taiwan, South Korea, Japan, Europe, the United States, Southeast Asia and the Middle East. We plan to further expand our reach to other overseas markets; and
- (iii) we plan to register our intellectual property rights in overseas jurisdictions to enhance our brand recognition.

Our PRC Legal Advisor is of the view that the above steps taken by us are reasonable and appropriate for gradually building up a track record to meet the Qualification Requirements, the fulfillment of which is subject to the competent authorities’ absolute discretion. Based on the verbal consultation with the MIIT in June 2021 conducted by our PRC Legal Advisor, MIIT will only make a final determination as to whether the Qualification Requirements are satisfied when it receives the detailed application materials and concrete facts. We will, as applicable and when necessary, disclose the progress of our overseas expansion plans and any update to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the [REDACTED]. We will make periodic inquiries with relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements. Nevertheless, even if we have taken the above steps with the aim to meet the Qualification Requirements, we would not be able to directly hold any equity interest in our PRC Consolidated Affiliated Entities conducting our principal business of publication and operation of games, which falls within internet cultural business, and according to the Negative List, foreign investments are prohibited to operate.

Investment held by QC Digital

In addition to the restricted and/or prohibited business of our Company, QC Digital also directly or indirectly holds investment in certain entities in the PRC (the “**Relevant Entities**” and each a “**Relevant Entity**”), each of which (i) is engaged in business subject to foreign investment prohibition under the Negative List which will impair the continuous validity of the relevant licenses or permits of the prohibited businesses held or invested by these entities; or (ii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List, however, such Relevant Entity intend to invest or engage in

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potential businesses which are subject to foreign investment prohibition and has expressly rejected our Company’s proposed transfer of the interest in these entities held by QC Digital to WFOE. It would be impracticable to obtain the consent and/or the assistance from all of the relevant stakeholders required for our Company’s proposed transfer of the interest in the Relevant Entities held by QC Digital to WFOE.

Set out below is a summary of the Relevant Entities held by QC Digital:

No.	Name of the Relevant Entities	Interest held by QC Digital as of the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
<i>Relevant Entities currently invest or engage in businesses which are subject to foreign investment prohibition or restriction</i>				
1.	Xiamen Nut Heli Venture Capital Partnership (L., P.) (廈門堅果核力創業投資合夥企業 (有限合夥) ⁽¹⁾) (“ Xiamen Nut Heli ”)	3.12% equity interest held by QC Digital	Equity Investment	Yes
2.	Xiamen Jixiang Tiancheng Venture Capital Partnership (L., P.) (廈門吉相天成創業投資合夥企業 (有限合夥) ⁽¹⁾) (“ Xiamen Jixiang ”)	4.15% equity interest held by QC Digital	Equity Investment	Yes
3.	Xiamen Heimai Network Technology Co., Ltd. (廈門黑脈網絡科技有限公司) (“ Xiamen Heimai ”)	19.83% equity interest held by QC Digital	Research and development, publication and operation of games	Yes
4.	Guangzhou JODO Tech Ltd. (廣州卓動信息科技有限公司) (“ Guangzhou JODO ”)	10.00% equity interest held by QC Digital	Publication and operation of games	Yes
5.	Xiamen Nuowei Heyue Venture Capital Partnership (L., P.) (廈門諾惟合悅創業投資合夥企業(有限合夥) ⁽¹⁾) (“ Xiamen Nuowei Heyue ”)	3.58% equity interest held by QC Digital	Equity Investment	Yes
6.	Suzhou Youge Huaxin Venture Capital Partnership (L., P.) (蘇州優格華欣創業投資中心 (有限合夥)) (“ Suzhou Youge ”)	10.31% equity interest held by QC Digital	Equity Investment	Yes

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No.	Name of the Relevant Entities	Interest held by QC Digital as of the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
7.	Tianjin Haochuan Cultural Communication Co., Ltd. (天津市好傳文化傳播有限公司)	2% equity interest held by QC Digital	Animation and Film Production	Yes

Relevant Entities intend to invest or engage in businesses which are subject to foreign investment prohibition or restriction

8.	Chengdu Juleyou Technology Co., Ltd. (成都聚樂游科技有限公司) (“ Chengdu Juleyou ”)	20.00% equity interest held by QC Digital	Research and development of games	No
9.	Xiamen Qianju Technology Co., Ltd. (廈門千聚科技有限公司) (“ Xiamen Qianju ”)	9.91% equity interest held by QC Digital	Provision of HTML5 game production platform	No
10.	Chengdu Weimei Interactive Technology Co., Ltd. (成都微美互動科技有限公司) (“ Chengdu Weimei ”)	45.64% equity interest held by QC Digital	Research and development of games	No
11.	Shenzhen Hot Zone Network Technology Co., Ltd. (深圳熱區網絡科技有限公司) (“ Shenzhen Hot Zone ”)	20.00% equity interest held by QC Digital	Research and development of games	No
12.	Chengdu Lemai Interactive Entertainment Technology Co., Ltd. (成都樂麥互娛科技有限公司) (“ Chengdu Lemai ”)	14.35% equity interest held by QC Digital	Research and development of games	No
13.	Fuzhou Kakapo Entertainment Co., Ltd. (福州卡卡波娛樂有限公司) (“ Fuzhou Kakapo ”)	15.00% equity interest held by QC Digital	Research and development of games	No
14.	Shenzhen Jishiwu Technology Co., Ltd. (深圳吉事屋科技有限公司) (“ Shenzhen Jishiwu ”)	20.00% equity interest held by QC Digital	Research and development of games	No

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No.	Name of the Relevant Entities	Interest held by QC Digital as of the Latest Practicable Date	Principal business	Investment involving prohibited/restricted businesses under the Negative List (Note 1)
15.	Xiamen Youahyou Technology Co., Ltd. (廈門游啊游科技有限公司) (“ Xiamen Youahyou ”)	20.00% equity interest held by QC Digital	Research and development of games	No
16.	Xiamen Suixiang Internet Technology Co., Ltd. (廈門隨像網絡科技有限公司) (“ Xiamen Suixiang ”)	20.00% equity interest held by QC Digital	Research and development of games	No
17.	Beijing Zhijian Lvdong Internet Technology Co., Ltd. (北京指尖律動網絡科技有限公司) (“ Beijing Zhijian ”)	20.00% equity interest held by QC Digital	Research and development of games	No

Note:

- (1) Certain Relevant Entities currently invest in certain target companies which are principally engaged in foreign prohibited or restricted businesses. As advised by our PRC Legal Advisor, the transfer of such Relevant Entities to WFOE would not be in compliance with the relevant foreign investment prohibition/restriction and therefore impair the continuous validity of the relevant licenses or permits for such prohibited businesses held by such target companies.

Compelling reasons to hold investment in Relevant Entities through QC Digital

Our Company has compelling reasons to hold investment interests in seven Relevant Entities including Xiamen Nut Heli, Xiamen Jixiang, Xiamen Heimai, Guangzhou JODO, Xiamen Nuwei Heyue, Suzhou Youge and Tianjin Haochuan, through QC Digital. As advised by our PRC Legal Advisor, these entities invest or engage in businesses which are subject to foreign investment prohibition/restriction under the Negative List. Our PRC Legal Advisor has advised that, due to foreign investment prohibition/restriction, the direct and indirect shareholders of these Relevant Entities or the target companies in which they invested, as applicable, must be controlled by the PRC nationals or PRC-incorporated corporations. The transfer of our investment interests in such Relevant Entities from QC Digital to WFOE would not be in compliance with the relevant foreign investment prohibition/restriction and therefore would impair the continuous validity of the relevant licenses or permits for the prohibited businesses held or invested by such Relevant Entities. In addition, these Relevant Entities have expressly rejected our Company’s proposed transfer of the interest in these entities held by QC Digital to WFOE.

In respect of ten Relevant Entities including Changdu Juleyou, Xiamen Qianju, Chengdu Weimei, Shenzhen Hot Zone, Chengdu Lemai, Fuzhou Kakapo, Shenzhen Jishiwu, Xiamen Youahyou, Xiamen Suixiang and Beijing Zhijian, to the best knowledge and information of our Company, these entities do not currently invest or engage in businesses that are subject to foreign investment prohibition under the Negative List. However, they intend to invest or engage in businesses which are subject to foreign investment prohibition and have expressly rejected our Company’s proposed transfer of the interest in these entities held by QC Digital to WFOE.

Other stakeholders’ consent or assistance required for transferring our Group’s investment interests from QC Digital to WFOE

It is impracticable for our Group to transfer its pre-existing investment interests in the Relevant Entities directly or indirectly held by QC Digital to WFOE without consent and/or assistance from other joint venture partners or shareholders of the Relevant Entities. As set out in the table above in the section headed

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“—Investment held by QC Digital,” pursuant to the Companies Law of the PRC (《中華人民共和國公司法》) and the articles of association of the Relevant Entities and the applicable PRC laws and regulations, any transfer of the interest in the Relevant Entities directly or indirectly held by QC Digital and, if applicable, any resultant amendment to the Relevant Entities’ articles of association require the consent and assistance of the other joint venture partners or shareholders.

Furthermore, QC Digital is merely a minority shareholder in each of the Relevant Entities, the influence that our Company or QC Digital could exert on the Relevant Entities or on lobbying and obtaining the consent and approvals of other joint venture partners or shareholders for implementing the transfer of their investment interests to WFOE is very limited.

Immateriality to our Company’s financial results and operating status

The Relevant Entities are immaterial to our Group in terms of their contribution to our Company’s financial results and operating status for the following reasons:

- (a) QC Digital holds investment interests in the Relevant Entities on behalf of our Company and such interests do not form part of the principal business of our Group.
- (b) Our Company’s interests in the Relevant Entities are accounted for using the equity method accounting or as financial assets at fair value through profit or loss in our Company’s consolidated financial statements. The financial results of the Relevant Entities are not consolidated into our Company’s consolidated financial statements.

Our Company recorded a share of loss amounting to RMB0.40 million and fair value loss amounting to RMB0.08 million from its investments in the Relevant Entities, total loss of which was approximately RMB0.48 million for the year ended December 31, 2020. Meanwhile, our Company recorded a net profit of approximately RMB103.7 million for the year ended December 31, 2020. Accordingly, the impact on such investments in the Relevant Entities on our Company’s financial performance is not significant. Our Company undertakes that, in the event that our Company proposes to acquire any business or equity interest in another company involving contractual arrangements, it will only do so in compliance with the Stock Exchange’s Guidance Letter HKEX-GL77-14.

OUR CONTRACTUAL ARRANGEMENTS

Overview

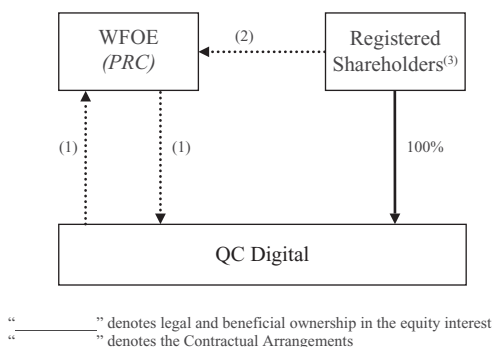
In view of the aforementioned PRC regulatory background, after consultation with our PRC Legal Advisor, we determined that it was not viable for our Company to hold our PRC Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions and prohibitions, we would gain effective control over, and receive all the economic benefits generated by, the businesses currently operated by our PRC Consolidated Affiliated Entities through the Contractual Arrangements between WFOE, on the one hand, and QC Digital and the Registered Shareholders, on the other. The Contractual Arrangements allow the results of operations and assets and liabilities of QC Digital and its subsidiaries to be consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group.

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 commenced a series of reorganization activities. The Contractual Arrangements currently in effect were entered into on May 26, 2021, whereby WFOE has acquired effective control over the financial and operational policies of our PRC Consolidated Affiliated Entities and has become entitled to all the economic benefits derived from their operations. We believe 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 and prohibitions in the PRC.

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Our Directors believe that the Contractual Arrangements are fair and reasonable because (i) the Contractual Arrangements were negotiated on an arm’s length basis and entered into between WFOE and QC Digital and the Registered Shareholders; (ii) by entering into the Exclusive Business Cooperation Agreement with WFOE, which is our subsidiary established under the PRC laws, our PRC Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the [REDACTED]; and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

The following simplified diagram illustrates the flow of economic benefits from our PRC Consolidated Affiliated Entities to WFOE as stipulated under the Contractual Arrangements.



Notes:

- (1) WFOE provides technical consultation and other services in exchange for service fees from QC Digital. See “—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Exclusive Business Cooperation Agreement.”
- (2) The Registered Shareholders executed an exclusive option agreement in favor of WFOE, for the acquisition of all or part of the equity interests and/or assets in QC Digital. See “—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Exclusive Option Agreement.” The Registered Shareholders granted security interests in favor of WFOE, over the entire equity interests in QC Digital held by Registered Shareholders. See “—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Equity Pledge Agreement.” The Registered Shareholders executed the Voting Rights Proxy Agreement and Powers of Attorney in favor of WFOE, for the exercise of all shareholders’ rights in QC Digital. See “—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Voting Rights Proxy Agreement and Powers of Attorney.” The spouse of each Relevant Individual Shareholders executed an undertaking in favor of WFOE, see “—Summary of the agreements under the Contractual Arrangements and other key terms thereunder—Spouse Undertakings.”
- (3) Wofan Qihang, G-bits, Xiamen Sealand, Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司), Guangzhou Lingxi Interactive Entertainment Limited (廣州靈犀互動娛樂有限公司) and Shanghai Hode Information Technology Co., Ltd. (上海幻電信息科技有限公司) and the Relevant Individual Shareholders (including Mr. Yang, Mr. Huang, Mr. Liu, Mr. Zeng, Mr. Wei, Mr. Ye and Mr. Lin) are collectively referred to as “**Registered Shareholders**”. For details of each of their shareholding in QC Digital, See “History, Reorganization and Corporate Structure—QC Digital—Key shareholding changes of QC Digital prior to Reorganization”.

Our Registered Shareholders are all PRC nationals (the “**Individual Registered Shareholders**”), PRC domestic companies or PRC limited partnership enterprises (collectively, the “**Corporate Registered Shareholders**”). Each of the Registered Shareholders have executed an Exclusive Option Agreement and a Voting Rights Proxy Agreement and Powers of Attorney. Each of the Registered Shareholders have granted security interests in favor of WFOE, over the entire equity interests in QC Digital held by such Registered Shareholders and have registered such pledges with the relevant PRC authorities. Thus, the Corporate Registered Shareholders and Individual Registered Shareholders assume the same obligations under the Contractual Arrangements.

Our PRC Legal Advisor is of the view that each of the Contractual Arrangements is binding on the parties thereto, and the Corporate Registered Shareholders, having obtained all necessary authorizations and approvals to execute and perform the Contractual Arrangements, are bound by the Contractual Arrangements to the same extent as that applicable to the Individual Registered Shareholders, the WFOE is able to gain control over the Corporate Registered Shareholders to the same extent as over the Individual Registered Shareholders.

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Circumstances under which we will unwind the Contractual Arrangements

Our Group will unwind and terminate the Contractual Arrangements as soon as practicable if Relevant Businesses no longer fall within the catalog of prohibitions or certain conditions and permission of foreign investment access required under the Negative List and we can legally operate our business under PRC laws and regulations, and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant PRC laws and regulations allow foreign ownership.

Summary of the agreements under the Contractual Arrangements and other key terms thereunder

A description of each of the specific agreements that comprises the Contractual Arrangements is set out below.

Exclusive Business Cooperation Agreement

Pursuant to an exclusive business cooperation agreement dated May 26, 2021 entered into between WFOE and QC Digital (the “**Exclusive Cooperation Agreement**”), QC Digital agreed to engage WFOE as its exclusive provider to provide QC Digital with technical consultation and services, including but not limited to, (i) business operation and management consultation; (ii) technical consultation; (iii) marketing and promotion consultation, and providing solutions for marketing and promotion; (iv) daily management, maintenance and update of the hardware and database; (v) development, maintenance and update of the software and system; (vi) daily maintenance, debugging and troubleshooting of computer network equipment; (vii) rental of equipment; (viii) human resource support and employee training; and (ix) other services permitted under PRC law as required by QC Digital from time to time. In exchange for these services, QC Digital shall pay a service fee, which shall consist of the total consolidated profit of QC Digital in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions in the corresponding financial year, which may include any accumulated deficit of QC Digital and all of its consolidated subsidiaries in respect of the preceding financial year(s) (if any). Meanwhile, QC Digital agreed to any adjustment WFOE may make at its sole discretion on the service fee based on the (i) the complexity of the technical support, the technical consultation and other services provided; (ii) the time required for providing services; (iii) the content and commercial value of the services provided; and (iv) the market price of the same type of services. QC Digital has agreed to pay the service fee to a bank account designated by WFOE within five (5) business days after WFOE issues the payment notice.

During the term of the Exclusive Cooperation Agreement, WFOE enjoys all the economic benefits in relation to our PRC Consolidated Affiliated Entities business operation.

Pursuant to the Exclusive Cooperation Agreement, without the prior written consent from WFOE, QC Digital shall not, during the term of the Exclusive Cooperation Agreement, accept the same or any similar services provided by any third party which are covered by the Exclusive Cooperation Agreement nor shall QC Digital establish cooperation relationships similar to those established by the Exclusive Cooperation Agreement with any third party.

The Exclusive Cooperation Agreement also provides that WFOE has the exclusive and proprietary ownership, rights and interests in all intellectual property arising out of or created by our PRC Consolidated Affiliated Entities during the performance of the Exclusive Cooperation Agreement.

In addition, pursuant to the Exclusive Cooperation Agreement, without the prior written consent from WFOE, QC Digital shall not, and shall procure that other PRC Consolidated Affiliated Entities not to, among other things:

- (i) sell, transfer, mortgage or otherwise dispose any assets (except for those in the ordinary course of business and worth RMB 1 million or less), business, management right or other beneficial interests;

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- (ii) enter into any material contracts (except for (1) those where contract amount is RMB 1 million or less; (2) those which are entered into within the ordinary course of business; and (3) those signed between QC Digital and/or its subsidiaries and WFOE’s parent company, or subsidiaries directly or indirectly controlled by the parent company);
- (iii) incur, inherit, guarantee or approve any debts (except for those generated in the course of ordinary business other than through loans and those which have disclosed to and obtained written consent from, WFOE; and
- (iv) merge or acquire any third party, change its registered share capital, or conduct restructuring or liquidation.

The Exclusive Cooperation Agreement shall remain effective unless (i) the entire equity interests held by the Registered Shareholders in QC Digital or the entire assets held by QC Digital have been transferred to WFOE or its appointee(s); (ii) terminated in writing by WFOE thirty days in advance; (iii) when QC Digital ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; or (iv) when it is legally permissible for WFOE to hold equity interests directly or indirectly in QC Digital and WFOE or its appointee(s) is registered to be the shareholder of QC Digital. QC Digital is not contractually entitled to unilaterally terminate the Exclusive Cooperation Agreement with WFOE.

Exclusive Option Agreement

Pursuant to an exclusive option agreement dated May 26, 2021, entered into among WFOE, QC Digital and the Registered Shareholders (the “**Exclusive Option Agreement**”), WFOE has the irrevocable, unconditional and exclusive right to purchase, or to designate one or more persons/entities to purchase, from the Registered Shareholders all or any part of their equity interests in QC Digital and from QC Digital all or any part of the assets of QC Digital at any time in WFOE’s absolute discretion in accordance with the provision of the Exclusive Option Agreement and to the extent permitted by the PRC laws. The consideration in relation to purchasing equity interests from the Registered Shareholders shall be the nominal price or the lowest price as permitted under the applicable PRC laws. The consideration in relation to purchasing assets from QC Digital shall be the lowest price as permitted under the applicable PRC laws. The Registered Shareholders shall return the consideration received to WFOE or any person/entity designated by WFOE.

The Registered Shareholders and QC Digital, among other things, have undertaken that:

- without the prior written consent of WFOE, QC Digital shall not in any manner supplement, change or alter its constitutional documents, increase or decrease its registered capital or change its structure of registered capital in other manner, or division, dissolution or any change of its corporate form in any manner;
- QC Digital shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards;
- without the prior written consent of WFOE, QC Digital shall not sell, transfer, mortgage or otherwise dispose of any assets (except for those of value less than RMB 1 million required for normal business operations), business, legal or beneficial interest of its income, or allow any guarantee or security to be created on or allow the aforementioned to be the subject of any guarantee or security (save for pledges made pursuant to the Equity Pledge Agreement);
- without the prior written consent of WFOE, QC Digital shall not incur, inherit, guarantee or allow any indebtedness other than those incurred in its ordinary course of business or those having been disclosed to and consented by WFOE in writing;
- QC Digital shall operate its business in order to maintain its asset value and they shall not perform any acts or allow any omission which adversely affects the business or assets value of QC Digital;

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- without the prior written consent of WFOE, they shall not cause QC Digital to enter into or terminate any material contract (for purpose of this subsection, a contract with a consideration exceeding RMB1 million shall be deemed a material contract), except for the contracts executed in the ordinary course of business or contracts entered between QC Digital and our Company (or any of our subsidiaries), or execute any contract which has substantial conflict with current material contracts;
- QC Digital shall provide its operation and financial information to WFOE upon WFOE’s request;
- without the prior written consent of WFOE, they shall not cause or allow QC Digital to merge or combine with any third party, or acquire or invest in any third party;
- without the prior written consent of WFOE, they shall ensure QC Digital not be terminated, dissolved or liquidated;
- they shall immediately inform WFOE if the assets, business, shareholdings or income of QC Digital are involved in any disputes, litigations, arbitrations or administrative proceedings and shall take all necessary measures under WFOE’s reasonable instructions;
- they shall sign all necessary and appropriate documents, take all necessary and proper acts, bring up all necessary and proper requests, or raise necessary and proper defenses against claims to maintain QC Digital’ ownership for all the assets;
- without the prior written consent of WFOE, they shall not cause QC Digital to distribute dividends to its shareholders; and
- if the Registered Shareholders or QC Digital fail to perform the tax obligations under applicable laws and results in obstacles for WFOE to exercise its exclusive option right, WFOE may request QC Digital or the Registered Shareholders to pay the taxes or pay the same amount to WFOE so WFOE may pay the taxes instead.

The Exclusive Option Agreement shall remain effective unless terminated in the event that (i) the entire equity interests held by the Registered Shareholders in QC Digital or the entire assets held by QC Digital have been transferred to WFOE or its appointee(s); or (ii) in writing by WFOE thirty days in advance.

Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement dated May 26, 2021 entered into between WFOE, QC Digital and the Registered Shareholders (the “**Equity Pledge Agreement**”), the Registered Shareholders agreed to unconditionally and irrevocably pledge all of their respective equity interests in QC Digital to WFOE as collateral security for securing the performance of their obligations under the Contractual Arrangements or for any and all of the secured indebtedness under the Contractual Arrangements. During the pledge period, WFOE is entitled to receive any dividends arising from the equity interests in QC Digital held by the Registered Shareholders.

The Equity Pledge Agreement came into effect upon execution and shall remain valid until after all the contractual obligations of the Registered Shareholders and QC Digital under the Contractual Arrangements have been fully performed and all the secured indebtedness of the Registered Shareholders and QC Digital under the Contractual Arrangements have been fully settled. The Registered Shareholders should complete the registration with the relevant administration for market regulation in accordance with the Equity Pledge Agreement.

Upon the occurrence of an event of default (as stipulated in the Equity Pledge Agreement) and unless it has been successfully resolved to WFOE’s satisfaction within 30 days after WFOE delivers a notice to the Registered Shareholders and/or QC Digital requesting rectification of such event of default, WFOE may exercise their right under the Equity Pledge Agreement to deal with the equity interest.

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On June 22, 2021, the pledges by the Registered Shareholders have been registered with the relevant PRC authorities as required by the relevant PRC laws and regulations.

Voting Rights Proxy Agreement and Powers of Attorney

The Registered Shareholders, WFOE and QC Digital entered into the Voting Rights Proxy Agreement on May 26, 2021, pursuant to which, each of the Registered Shareholder agreed to enter into a power of attorney respectively (the “**Powers of Attorney**”) through which each of the Registered Shareholders shall agree to irrevocably appointed WFOE or its appointees as their exclusive agents to act on their behalf to exercise all of their respective rights as the shareholder of QC Digital in accordance with applicable laws and the articles of association of QC Digital. These rights include, among other things, the rights (i) to propose, convene and attend shareholders’ meetings of QC Digital, and sign shareholders’ meeting minutes, resolutions and other relevant documents in the capacity of a proxy of the Registered Shareholders; (ii) to exercise the voting rights on behalf of the Registered Shareholder on all the resolutions which shall be approved at shareholders’ meeting, including but not limited to (a) the election and appointment of directors and other senior management of QC Digital who should be appointed or removed by the shareholders of QC Digital; (b) the sale, transfer, pledge or disposal of any or all equity interests or assets of QC Digital; (c) the decision on the increase or decrease QC Digital’s registered capital, and merger, division, dissolution or liquidation of QC Digital; and (d) the amendments to the articles of association of QC Digital; (iii) to submit any required document to relevant government authorities; (iv) to sign or submit any required document to any company registry or other authorities; (v) to designate or appoint and remove the legal representative, directors, supervisors and other senior management of QC Digital who should be appointed or removed by the shareholders of QC Digital; and (vi) the right to exercise any other rights of shareholders pursuant to PRC laws and the articles of association of QC Digital.

Each of the Registered Shareholders have undertaken that they (i) would not execute any documents with or make any undertaking to any third parties that may have conflicts of interests with any agreements entered into between the Registered Shareholders and WFOE; (ii) they shall not commit or refrain from committing any act that may lead to conflicts of interests between the Registered Shareholders and WFOE; and (iii) in the event of the occurrence of a conflict of interests, they shall, subject to the consent of WFOE, take any measure to eliminate such conflicts.

The Voting Rights Proxy Agreement shall remain effective unless (i) when it is legally permissible for WFOE to hold equity interests directly or indirectly in QC Digital and WFOE or its appointee(s) is registered to be the sole shareholder of QC Digital; or (ii) terminated in writing by WFOE thirty days in advance.

Spouse Undertakings

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking (the “**Spouse Undertakings**”) to the effect that (i) the spouse has full knowledge of and unconditionally and irrevocably consents to the entering into the Contractual Arrangements (as amended from time to time) among the respective Relevant Individual Shareholders, WFOE and QC Digital; (ii) the spouse shall be bound by the Contractual Arrangements (as amended in QC Digital from time to time) and take all necessary actions to ensure the appropriate implementation of the Contractual Arrangements; (iii) the spouse has no direct right to or interest in such interests of the Relevant Individual Shareholder and will not have any claim on such interests; and (iv) in the event that the spouse of the Relevant Individual Shareholders holds the interests in QC Digital, such spouse shall enter into a series of agreements which are similar to the Contractual Arrangements with WFOE and QC Digital as requested by WFOE.

Our PRC Legal Advisor is of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of death or divorce of any Relevant Individual Shareholder; and (ii) the death or divorce of such shareholder would not affect the validity of the Contractual Arrangements, and WFOE or our Company can still enforce its rights under the Contractual Arrangements against the Registered Shareholders.

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Other Key Terms under the Contractual Arrangements

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, the parties shall negotiate in good faith to resolve the dispute, in the event the parties fail to settle the dispute within thirty (30) days of a negotiation request, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration in accordance with the then effective arbitration rules and procedures. The arbitration shall be conducted in Beijing. The arbitral award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the equity interests or assets or grant injunctive measures or order specific performance or the winding up of QC Digital. When awaiting the formation of the arbitral tribunal or otherwise under appropriate conditions, the court with competent jurisdiction may grant the interim relief. The parties agree that the courts of Hong Kong, Cayman Islands, and other relevant jurisdiction (being the place where our Company or QC Digital is incorporated or the principal assets of our Company and QC Digital are located) shall all be deemed to have competent jurisdiction.

However, our PRC Legal Advisor has advised that (i) a tribunal normally would not grant injunctive measures or winding up order of QC Digital under PRC laws and regulations; (ii) interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over our PRC Consolidated Affiliated Entities.

As a result of the above, in the event that QC Digital or the 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 PRC Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See “Risk Factors—Risks Related to Our Contractual Arrangements.”

Conflict of Interest

Each of the Registered Shareholders has given its irrevocable undertakings in the Voting Rights Proxy Agreement which address potential conflicts of interests that may arise in relation to the Contractual Arrangements. See “—Contractual Arrangements—Voting Rights Proxy Agreement and Powers of Attorney.”

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Relevant Individual Shareholders, as if the successors were signing parties to the Contractual Arrangements. Under the Civil Code of the PRC (《中華人民共和國民法典》), the successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, WFOE may enforce its rights against the successors. Pursuant to the Contractual Arrangements, any heir of the Relevant Individual Shareholders shall inherit any and all rights and obligations of the Relevant Individual Shareholders under the Contractual Arrangements as a result of their death, loss of capacity, or under other circumstances which would affect their exercise of right as Registered Shareholders of QC Digital.

According to the terms of the Exclusive Option Agreement, each of the Registered Shareholders has undertaken, (i) in the event of death or loss of capacity or any other events that could possibly affect his/her exercise or fulfillment of the rights and obligations as a shareholder of QC Digital, or (ii) in the event of the bankruptcy or dissolution, or any other events that could possibly affect its exercise or fulfillment of the rights and obligations as a shareholder of QC Digital, his or its successor in the undertakings of the Registered Shareholders shall assume all the rights and obligations of the Registered Shareholders under the Exclusive Option Agreement.

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Based on the foregoing, our PRC Legal Advisor is of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholders; and (ii) the loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholders would not affect the validity of the Contractual Arrangements.

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 PRC Consolidated Affiliated Entities. Our PRC Consolidated Affiliated Entities are also limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our PRC 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 PRC Consolidated Affiliated Entities suffer losses.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of a liquidation or dissolution required by the PRC laws, the Registered Shareholders of QC Digital shall transfer the remaining proceeds they received from liquidation or dissolution to the WFOE or its designee(s), at the lowest price as permitted by the PRC laws and regulations, the Registered Shareholders shall waive any payment obligation of WFOE or its designee(s) arising thereon to the extent permitted by then applicable laws of the PRC in force; or shall return WFOE or its designee(s) any income (if any) arising from such transaction to the extent permitted by then applicable laws of the PRC in force.

Pursuant to the Exclusive Option Agreement, the Registered Shareholders have undertaken to appoint a committee designated by WFOE as liquidation committee upon the winding up of QC Digital to manage its assets. However, in the event of a mandatory liquidation required by PRC laws and regulations or bankruptcy liquidation, these provisions may not be enforceable under the PRC laws and regulations.

Insurance

Our Company does not maintain an insurance policy to cover the risks related to the Contractual Arrangements.

Company’s confirmation

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

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

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

- (a) each of the agreements under the Contractual Arrangements is governed by PRC laws and has been executed properly by each party;
- (b) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto, enforceable under applicable PRC laws and regulations, except that (i) the arbitral tribunal may

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award remedies over the equity interests or assets or grant injunctive measures or order the winding up of QC Digital, and the court with competent jurisdiction are empowered to grant interim relief when awaiting the formation of the arbitral tribunal or otherwise under appropriate conditions, while under PRC laws and regulations, an arbitral body has no power to grant injunctive measures or to order an entity to wind up, and the aforesaid interim remedies granted by competent courts may not be recognizable or enforceable in the PRC; and (ii) the Contractual Arrangements provide that the Registered Shareholders have undertaken to appoint a committee designated by WFOE as liquidation committee upon the winding up of QC Digital to manage its assets; however, in the event of a mandatory liquidation required by PRC laws and regulations or bankruptcy liquidation, these provisions may not be enforceable;

- (c) none of the agreements under the Contractual Arrangements violates any provisions of the articles of association of QC Digital or WFOE; and
- (d) no approval or authorization from the PRC governmental authorities are required for the execution and performance of the Contractual Arrangements except that (i) the pledge of any equity interests in QC Digital for the benefit of WFOE is subject to registration requirements with the relevant governmental authority which has been duly completed on June 22, 2021; (ii) the exercise of any exclusive option rights by WFOE under the Exclusive Option Agreement may subject to the approval, filing or registration requirements with the relevant authorities under the then applicable laws and regulations of the PRC in force; and (iii) the transfer or license of any intellectual property rights under the Exclusive Cooperation Agreement may subject to the approval, filing or registration requirements with the relevant authorities under the then applicable laws and regulations of the PRC in force.

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 Relating to Our Contractual Arrangements”.

Internet culture operation (including online game operation) falls within the prohibited categories in the Negative List. The Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院<“三定”規定>和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》) (the “GAPP Notice”), promulgated by the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications, on September 28, 2009, provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in the PRC through sole proprietorship, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

Notwithstanding the foregoing, the Company and the respective PRC Legal Advisors of the Company and the Joint Sponsors conducted an interview with the Fujian Press and Publication Bureau (福建省新聞出版局) in June 2021, which provided oral confirmations that (i) our Contractual Arrangements are a manner of enterprises’ independent operation and (ii) the Contractual Arrangements are not subject to any approvals from the Fujian Press and Publication Bureau. The Fujian Press and Publication Bureau (福建省新聞出版局) did not express any objection to the Contractual Arrangements. Our PRC Legal Advisor is of the view that (i) Fujian Press and Publication Bureau is the competent government authority for our Company’s principal business; (ii) the personnel who gave the aforementioned oral confirmations in the interview have the authority to give such oral confirmations on behalf of the Fujian Press and Publication Bureau; and (iii) based on such verbal consultations and market practice, the adoption of the Contractual Arrangements is unlikely to be challenged or subject to penalty for any violation of relevant PRC laws and regulations.

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Based on the above analysis and advice from our PRC Legal Advisor and confirmation from the relevant government authority, our 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, and except for the relevant clauses as described in the paragraph headed “Dispute Resolution” and “Liquidation” in this section, each of the agreements under the Contractual Arrangements is enforceable under the PRC laws and regulations.

We are aware of a Supreme People’s Court ruling (the “**Supreme People’s Court Ruling**”) made in October 2012 and two arbitral decisions from the Shanghai International Arbitration Center made in 2010 and 2011 respectively which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against “concealing an illegitimate purpose under the guise of legitimate acts” as set out in Article 52 of the PRC Contract Law (《中華人民共和國合同法》) and the General Principles of the PRC Civil Law (《中華人民共和國民法總則》) (Both the PRC Contract Law and the General Principles of the PRC Civil Law have been replaced by the Civil Code of the PRC (《中華人民共和國民法典》 which came into effect on January 1, 2021)). It has been further reported that these court rulings and arbitral decisions may increase: (i) the possibility of the PRC courts and/or arbitral panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC; and (ii) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of financial results of our PRC Consolidated Affiliated Entities

Under the Exclusive Cooperation Agreement, it was agreed that, in consideration of the services provided by WFOE, QC Digital shall pay services fees to WFOE. The services fee shall consist of the total consolidated profit of QC Digital in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions recognized by WFOE in each financial year, which may include any accumulated deficit of QC Digital and all of its consolidated subsidiaries in respect of the preceding financial year(s) (if any). WFOE has the right to periodically receive or inspect the accounts of our PRC Consolidated Affiliated Entities.

In addition, under the Exclusive Option Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders as WFOE’s prior written consent is required before any distribution can be made. If the Registered Shareholders receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the services fee under the Exclusive Cooperation Agreement, such income, profit distribution or dividend to WFOE or any other person/entity designated by WFOE to the extent permitted under applicable PRC laws. Because of the Contractual Arrangements between WFOE, QC Digital and the Registered Shareholders, WFOE can effectively control, recognize and receive all the economic benefit of the business and operations of our PRC Consolidated Affiliated Entities. Accordingly, our PRC Consolidated Affiliated Entities are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of our PRC Consolidated Affiliated Entities is disclosed in note 2.2.1 to the Accountant’s Report set out in Appendix I to this document.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through QC Digital and, at our Company’s sole discretion, can receive all of the economic interest returns generated by our PRC Consolidated Affiliated Entities. Accordingly, the results of operations, assets and liabilities, and cash flows of our Consolidated Affiliated Entities are consolidated into our Company’s financial statements.

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. Our Reporting Accountant, has issued an unqualified opinion on our Group’s consolidated financial information as of and for the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2021 as included in the Accountant’s Report set out in Appendix I to this document.

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DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

The Foreign Investment Law

Foreign Investment Law (《中華人民共和國外商投資法》) was adopted at the Second Session of the Thirteenth National People’s Congress of the PRC on March 15, 2019 and came into force on January 1, 2020. The Foreign Investment Law has replaced the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC.

The Foreign Investment Law stipulates the implementation of the management systems of pre-establishment national treatment and “negative list” for foreign investment. The “negative list”, which was issued by the State Council, refers to special administrative measures for access of foreign investment in specific fields in China. A foreign investor shall not invest in any field in the “negative list” which is prohibited from foreign investment. A foreign investor shall fulfill the investment requirements stipulated under the relevant laws and regulations for any field in the “negative list” which is restricted from foreign investment. Concerning fields not mentioned in the “negative list”, management shall be conducted under the principle of consistency of domestic and foreign investment.

Impact and Potential Consequences of the Foreign Investment Law on the Contractual Arrangements

Our PRC Legal Advisor has advised that, since the contractual arrangements are not specified as foreign investments under the Foreign Investment Law, and no relevant laws, administrative regulations or provisions of the State Council have incorporated contractual arrangements as a form of foreign investment, the Foreign Investment Law does not apply to our Contractual Arrangements, and it does not substantially change the identification of foreign investors in the field of foreign investment and the principle of recognition and treatment of our Contractual Arrangements. Therefore, each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties if there are no changes to relevant laws and regulations in this respect. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investors investing through any other methods stipulated under laws, administrative regulations or provisions of the State Council may be considered as a form of foreign investment. It is therefore possible that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment. However, as of the Latest Practicable Date, it was uncertain as to how our Contractual Arrangements will be handled. If Relevant Businesses no longer fall in the catalog of prohibitions or certain conditions and permission of foreign investment access required under the Negative List and we can legally operate our business under PRC laws and regulations, the WFOE will exercise the exclusive option right under the Exclusive Option Agreement to acquire the equity interest/assets of QC Digital and unwind the Contractual Arrangements subject to any applicable approvals from the relevant governmental authorities, and subject to any application or approval procedures by the relevant governmental authorities.

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:

- (i) major issues arising from the implementation of 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 as and when they arise;
- (ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and

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- (iv) 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 PRC Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, notwithstanding that our executive Directors, Mr. Yang, Mr. Huang, Mr. Liu and Mr. Zeng are the Registered Shareholders, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently under the following measures:

- (i) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is applicable for him or her to do so, and if he or she is to be regarded as having any material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (ii) each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of our Group;
- (iii) we have appointed three independent non-executive Directors, comprising one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
- (iv) we will disclose in our announcements, circulars, annual and interim reports, whatever appropriate, in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his or her associate that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.