
CONTRACTUAL ARRANGEMENTS

BACKGROUND OF THE CONTRACTUAL ARRANGEMENTS

Established in 1999, we have become a smart learning device service provider with an established education product and service offerings in China. We currently conduct our digital educational resources production and sales business, comprising the production of short-form animation courseware and offering of pre-recorded video resources held by us through our online platform and mobile APPs, and making available access to online free educational resources provided by third parties on our smart learning devices (the “**Relevant Business**”) through our PRC Operating Entity, namely, Zhuhai Readboy in the PRC. The Relevant Business is considered as value-added telecommunications services in the PRC. PRC Laws have restricted foreign ownership in the Relevant Business. As such, we operate the Relevant Business through the Contractual Arrangements.

After the Reorganization, we do not own any equity interest in the PRC Operating Entity in the PRC, which is owned as to 100% by the Registered Shareholders, namely, Mr. Shen Jianfei and Mr. Qin.

To comply with PRC Laws and maintain effective control over the Relevant Business, we entered into the Contractual Arrangements on March 23, 2021, under which our WFOE acquired effective control over the financial interest and operation of the PRC Operating Entity and has become entitled to all the economic benefits derived from its operations to which the PRC Operating Entity is entitled.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between WFOE, the Registered Shareholders and the PRC Operating Entity; (ii) by entering into the Exclusive Business Cooperation Agreement with WFOE, which is a PRC Subsidiary of our Company, the PRC Operating Entity would enjoy better economic and technical support from us after the [REDACTED]; and (iii) a number of other companies use similar arrangements to accomplish the same purposes.

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PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTION

Restrictions on foreign ownership

Prohibited and restricted foreign investment activities in mainland China are mainly governed by the Special Management Measures (Negative List) for the Access of Foreign Investment (2020 version) (《外商投資准入特別管理措施(負面清單)(2020年版)》), the latest version of which was effective from July 23, 2020 (“**Negative List**”), setting forth restrictive measures for market entry of foreign investors, such as equity requirements. According to the Negative List, foreign investors shall comply with such restrictive requirements when engaging in the restricted items listed in the Negative List. In addition, according to the Negative List, the foreign investors shall not engage in prohibited items listed in the Negative List.

The online and mobile education platforms offered by the PRC Operating Entity fall within the scope of value-added telecommunications. Pursuant to the Negative List, the Relevant Business is considered “restricted” (in which foreign investors are prohibited from holding more than 50% equity interest, in the case of value-added telecommunications services, “**Foreign Ownership Restriction**”).

Qualification Requirements

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) (“**FITE Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are prohibited from holding more than 50% of the equity interests in a company providing value-added telecommunications services, including ICP services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (“**Qualification Requirements**”).

On May 1, 2022, the State Council amended the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the “**2022 FITE Regulations**”). The 2022 FITE Regulations, among others, no longer requires the main foreign investor who invests in a value-added telecommunications business in the PRC to possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations. The 2022 FITE Regulations prescribes that foreign investors are not allowed to hold more than 50% of the equity interests of a company engaged in value-added telecommunications business, except as otherwise stipulated by the state, and that a foreign-invested enterprise must be approved by the MIIT to engage in value-added telecommunications business. As of the Latest Practicable Date, no applicable PRC laws, regulations or rules had provided a clear guidance or interpretation regarding the foregoing amendment in the 2022 FITE Regulations and the interpretation and enforcement of the foregoing amendment in the 2022 FITE Regulations remains uncertain in practice.

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On June 16, 2022, with the assistance of our PRC legal advisor, we conducted a phone inquiry with the MIIT through service hotline (the “**June 16 Interview**”) and relevant MIIT staff confirmed that, which our PRC legal advisor concurs, based on the current regulatory review practice, (i) while the 2022 FITE Regulations have come into effect, which no longer requires the main foreign investor who invests in a value-added telecommunications business in the PRC to possess prior experience in operating value-added telecommunications businesses and a proven track record of business operation, the foreign investors are still prohibited from holding more than 50% of the equity interests of a company engaged in value-added telecommunications business, and thus the wholly-owned foreign investment entity would still not be granted an ICP License, (ii) there is no detailed explanation or guidelines on the 2022 FITE Regulations available for the foreign-invested enterprises without prior experience in operating value-added telecommunications businesses and a proven track record of business operation and in which foreign investor holds 50% or less equity interests (the “**New Applicant**”) to apply an ICP License at current stage and (iii) the application by a New Applicant for ICP Licenses is still subject to thorough examination and discretion by the MIIT and will not be approved in practice until detailed explanation or guidelines are issued.

Based on the confirmation from the June 16 Interview and the facts that, (i) the above confirmation from the June 16 Interview is consistent with the confirmation we received from the interview with the MIIT on April 13, 2021, (ii) as of the Latest Practicable Date, we had already obtained the value-added telecommunication business operating license, (iii) the 2022 FITE Regulations does not raise any additional requirements or restrictions on enterprises who have already obtained the value-added telecommunication business operating license before such amendment, and (iv) as of the date of this Document, we have not received any inquiry, notice, sanction and other concerns from any authorities regarding the Contractual Arrangements and VIE structure, and save for the uncertainties regarding interpretation and implementation for the 2022 FITE Regulations as disclosed in this document, our PRC Legal Advisor is of the view that the above changes in laws and regulations in relation to value-added telecommunication services will not affect the validity and the legality of our value-added telecommunication business operating license and will not have a material adverse effect on our operations in the PRC in effect as of the Latest Practicable Date. Based on the foregoing analysis, our Directors, with the advice of our PRC Legal Advisor, are of the view that the 2022 FITE Regulations will not have a material adverse effect on our business and operations.

Reasons to adopt the Contractual Arrangements

Given that our business falls within the scope of “value-added telecommunications”, which requires an ICP License to operate in China, and considering the Foreign Ownership Restriction, FITE Regulations and Qualification Requirements, outlined above, on April 13, 2021, with the assistance of our PRC Legal Advisor, we interviewed a senior officer of the information and communication development department (信息通信發展司) of the MIIT and the MIIT senior officer confirmed that, which our PRC legal advisor concurs, based on the current regulatory review practice, we would not be granted an ICP License through any

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Sino-foreign equity joint venture (of which the Company holds 50% or less equity interest, 50% being the maximum equity interest permissible to be held by a foreign investor under the Negative List) or wholly-owned foreign investment entity even if we meet the Qualification Requirements.

As confirmed by our PRC Legal Advisor, as the officer we interviewed is a senior officer of the information and communication development department of the MIIT, and such department is responsible for information and communication construction supervision policies as well as the promotion of foreign cooperation related projects of the information and communication industry, it is the competent authority to provide the aforementioned confirmations. In addition, notwithstanding our cessation to offer any live streaming classes since August 2021, our PRC Legal Advisor advised that as we are still involved in the provision of commercial Internet information services by providing digital educational resources and related services through online platforms and/or mobile education devices, the ICP License is still essential and required for the Group’s operation. While the 2022 FITE Regulations no longer requires the main foreign investor who invests in a value-added telecommunications business in the PRC to possess prior experience in operating value-added telecommunications businesses and a proven track record of business operation, the foreign investors are still prohibited from holding more than 50% of the equity interests of a company engaged in value-added telecommunications business. Therefore, the aforesaid interview with the senior officer of the MIIT which covers, inter alia, the current business scope of the Group and other issues applicable to the Company, such as the scope of the ICP License and the foreign investment restriction, is therefore still valid and effective, and hence no further additional regulatory assurance is required.

On June 16, 2022, with the assistance of our PRC legal advisor, we conducted a phone inquiry with the MIIT through service hotline (the “**June 16 Interview**”) and relevant MIIT staff confirmed that, which our PRC legal advisor concurs, based on the current regulatory review practice, (i) while the 2022 FITE Regulations have come into effect, which no longer requires the main foreign investor who invests in a value-added telecommunications business in the PRC to possess prior experience in operating value-added telecommunications businesses and a proven track record of business operation, the foreign investors are still prohibited from holding more than 50% of the equity interests of a company engaged in value-added telecommunications business, and thus the wholly-owned foreign investment entity would still not be granted an ICP License, (ii) there is no detailed explanation or guidelines on the 2022 FITE Regulations available for the foreign-invested enterprises without prior experience in operating value-added telecommunications businesses and a proven track record of business operation and in which foreign investor holds 50% or less equity interests (the “**New Applicant**”) to apply an ICP License at current stage and (iii) the application by a New Applicant for ICP Licenses is still subject to thorough examination and discretion by the MIIT and will not be approved in practice until detailed explanation or guidelines are issued.

Based on the current regulations and policy of relevant PRC government authorities, and as explained and confirmed by the MIIT, our PRC Legal Advisor advised that (i) foreign investors are prohibited from holding more than 50% of the equity interests in a company providing value-added telecommunications services, including ICP services, even though the 2022 FITE Regulations no longer requires the main foreign investor who invests in a value-added telecommunications business in the PRC to possess prior experience in operating value-added telecommunications businesses and a proven track record of business operation,

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(ii) as confirmed by the MIIT, it would not approve our application for the establishment of a wholly-owned foreign invested enterprise to hold an ICP License as a value-added telecommunications service provider currently, (iii) there is no detailed explanation or guidelines on the 2022 FITE Regulations available for the foreign-invested enterprises without prior experience in operating value-added telecommunications businesses and a proven track record of business operation and in which foreign investor holds 50% or less equity interest (the “**New Applicant**”) to apply an ICP License at current stage and (iv) the application by the New applicant for ICP Licenses is subject to thorough examination and discretion by the MIIT, and will not be approved in practice until detailed explanation or guidelines are issued. Therefore, our PRC Legal Advisor is of the view that the Contractual Arrangements have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations.

Accordingly, we cannot hold a direct controlling interest in the PRC Operating Entity, which holds the licenses and permits required for the operation of the Relevant Business. However, we will communicate with the relevant authorities on a regular basis following the [REDACTED] to keep abreast of any regulatory developments, with a view to unwinding the Contractual Arrangement wholly or partially as and when practicable and permissible under the prevailing PRC laws.

For further details of the limitations on foreign ownership in PRC companies engaged in the Relevant Business, please refer to the section headed “Regulatory Overview” in this document.

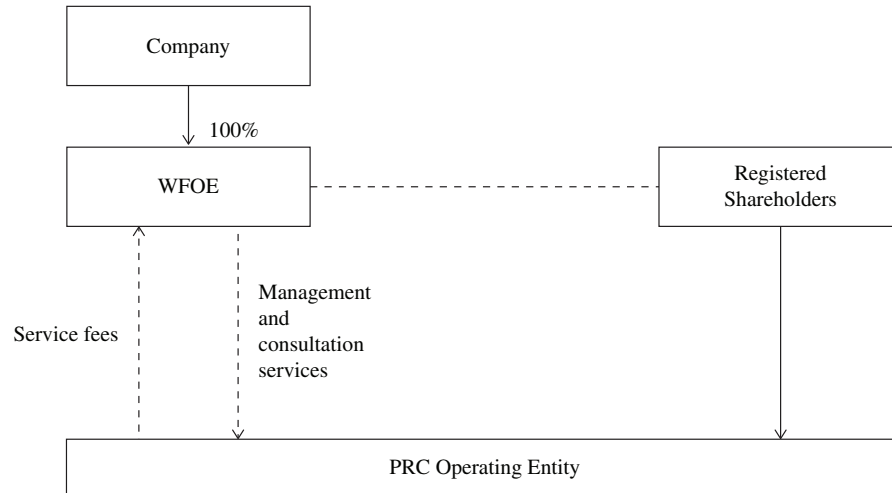
Circumstances in which we will unwind the Contractual Arrangements

We will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the Relevant Business, to the extent permissible, and we will directly hold the maximum percentage of ownership interest permissible under the relevant PRC Laws (i) if the relevant government authority grants ICP Licenses to the sino-foreign entity currently held and to be established by our Company; or (ii) when the Relevant Business is no longer restricted from foreign investment under the PRC laws. In this event: (a) WFOE will exercise the call option under the Exclusive Call Option Agreement to the extent permissible and unwind the Contractual Arrangements so that we are able to directly operate the Relevant Business without using the Contractual Arrangements; and (b) the Registered Shareholders will return to our Company any consideration received in the event that our Company acquires equity interests in the PRC Operating Entity when terminating the Contractual Arrangements.

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OPERATION OF THE CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entity to our Group stipulated under the Contractual Arrangements:



Notes:

“—>” denotes direct legal and beneficial ownership in the equity interest

“- - ->” denotes contractual relationship

“- - - -” denotes the control by WFOE over the Registered Shareholders through (1) powers of attorney to exercise all Registered Shareholders rights in the PRC Operating Entity, (2) exclusive options to acquire all or part of the equity interests in the PRC Operating Entity held by the Registered Shareholders, (3) equity pledge over the interest in the PRC Operating Entity, and (4) the Individual Shareholder Spouse Undertakings.

Summary of the material terms of the Contractual Arrangements

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

(1) *Exclusive Business Cooperation Agreement*

Pursuant to the Exclusive Business Cooperation Agreement dated March 23, 2021 entered into by and between WFOE and the PRC Operating Entity, WFOE agrees to leverage its human, technical and information strengths to provide the PRC Operating Entity with the relevant exclusive technical services, technical consultation, and other services.

Such services include the provision of comprehensive business support, technical services and consultation services, including all the services within the PRC Operating Entity’s scope of business, in whole or in part, as determined by WFOE from time to time, including but not limited to: technical services, business consultation (educational training, educational software, curriculum and R&D, etc.), intellectual property licensing, business management,

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market research and consultation, provision of management consultation services related to the PRC Operating Entity's business operations and other services as may be requested by the PRC Operating Entity from time to time under Chinese law (hereinafter referred to as the "Services").

Except with the prior written consent of WFOE, the PRC Operating Entity shall not, and shall procure that its controlled subsidiaries shall not, accept any advice and/or Services from, or cooperate with, any third parties other than the banks with which it has/they have entered cooperation. WFOE may designate any other parties to provide the PRC Operating Entity with any advice and/or Services under the Exclusive Business Cooperation Agreement.

The Services provided by WFOE shall be exclusive. However, the PRC Operating Entity may continue to enjoy the existing Services provided by the third parties which are identical or similar to those provided by WFOE, if approved in writing by WFOE.

It is further agreed that:

- (a) Except for the existing directors and supervisors of the PRC Operating Entity who will remain in office as agreed by WFOE, the PRC Operating Entity shall appoint the candidates recommended by WFOE as its directors in accordance with the procedures stipulated by the PRC laws, and shall appoint the senior management personnel employed and recommended by WFOE as its general manager, chief financial officer and other senior management positions, subject to the provisions of the PRC laws, who will be responsible for supervising the business and operation of the PRC Operating Entity; subject to the provisions of the PRC laws, except for the reasons of retirement, resignation, incompetence or death, and unless prior written consent of WFOE has been obtained, the PRC Operating Entity shall not remove the directors or other senior management personnel recommended by WFOE for any other reasons;
- (b) the PRC Operating Entity agrees to procure that the directors and senior management of the PRC Operating Entity should exercise their power and authority under the laws, regulations, and Articles of Association as per the instructions of WFOE;
- (c) WFOE shall set up and adjust the organizational structure of the PRC Operating Entity and exercise management of its human resources;
- (d) WFOE shall have the right to conduct business related to the Services in the name of the PRC Operating Entity, who shall provide all necessary support and facility for the smooth conduct of such business by WFOE, including but not limited to issuing to WFOE all necessary authorizations required for the provision of the relevant Services;

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- (e) Subject to the provisions of the PRC laws, WFOE shall have the right to audit the accounts of the PRC Operating Entity on a regular basis and at any time, and the PRC Operating Entity shall keep proper and accurate accounts and provide the same to WFOE as requested. During the term of the Exclusive Business Cooperation Agreement, the PRC Operating Entity agrees to cooperate with WFOE and WFOE's shareholders in such audit, and to provide WFOE, WFOE's shareholders, direct or indirect, and/or its appointed auditors with information and data regarding the PRC Operating Entity's operations, business, customers, finances, employees, etc., and agrees that WFOE's shareholders shall disclose such information and materials for the purpose of meeting the requirements of the securities regulatory authorities.

The PRC Operating Entity agrees to place the relevant certificates and company seals which are important to the daily operations of the PRC Operating Entity, including its business license, certificate of organization code (if any), company seal, contract seal, financial seal and seal of its legal representative, under the custody of the directors, legal representatives, general manager, chief financial officer and other senior management personnel of the PRC Operating Entity as recommended by WFOE and appointed by the PRC Operating Entity in accordance with the legal procedures.

With respect to the services provided by WFOE under the Exclusive Business Cooperation Agreement, subject to the mandatory provisions of the PRC laws, the PRC Operating Entity and its controlled subsidiaries shall, during the term of the Exclusive Business Cooperation Agreement, after making up the losses of the previous years (if necessary), deducting the necessary costs, expenses, taxes and fees incurred during the corresponding fiscal year and withdrawing the required legal reserve, etc. at the end of each fiscal year, transfer to WFOE all the income of the PRC Operating Entity and its controlled subsidiaries (including the accumulated income from the previous fiscal years) equivalent to the net profit, as the service fee (the "**Service Fee**"); WFOE shall have the right to determine the deductible items as mentioned above. The amount of such Service Fee shall be determined by WFOE and WFOE shall have the right to adjust such Service Fee in its sole discretion without the consent of the PRC Operating Entity, and the PRC Operating Entity shall, within 10 business days after the date of WFOE's written request for such adjustment, actively cooperate with WFOE in good faith; the Service Fee shall be calculated and adjusted with the following factors taken into account, including but not limited to: (a) the difficulty and complexity of the technical consultation and other services provided by WFOE; (b) the time required for WFOE to provide such technical consultation and other services; (c) the specific contents and commercial value of the technical consultation and other services provided by WFOE; (d) the market price of the same type of services.

WFOE agrees that during the term of the Exclusive Business Cooperation Agreement, WFOE shall enjoy all the economic benefits and bear all the risks arising from the business operations of the PRC Operating Entity.

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(2) *Exclusive Call Option Agreement*

Under the Exclusive Call Option Agreement dated March 23, 2021 entered into by and among WFOE, the PRC Operating Entity and the Registered Shareholders, the Registered Shareholders irrevocably and unconditionally agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests in the PRC Operating Entity held by the Registered Shareholders, for nominal consideration or the minimum amount of consideration permitted by the applicable PRC laws and regulations, under circumstances in which WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of the PRC Operating Entity. Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nominal consideration, the Registered Shareholders shall, according to the instruction of WFOE, return the amount of purchase price they have received to WFOE or its designated third party, or the PRC Operating Entity.

Pursuant to the Exclusive Call Option Agreement, we have the sole discretion to decide when to exercise the call option granted under the Exclusive Call Option Agreement (the "**Equity Call Option**"), and whether to exercise the Equity Call Option in part or in full. The key factor for us to decide whether to exercise the Equity Call Option is whether the Foreign Investment Restrictions will be removed in the future, the likelihood of which we were not in a position to know or comment on as of the Latest Practicable Date.

The Registered Shareholders and the PRC Operating Entity have further undertaken, among other things, that they:

- (a) shall not supplement, change or amend the PRC Operating Entity's articles of association and regulations in any form, increase or decrease its registered capital, or otherwise change its registered capital structure, and shall not make any divisions, dissolution or any change in the corporate structure of the PRC Operating Entity, without the WFOE's prior written consent, unless such amendments are expressly agreed otherwise pursuant to the Exclusive Call Option Agreement and are necessary to realize the transfer of the purchased equity interest or assets in relation to the PRC Operating Entity;
- (b) shall ensure the business continuity of the PRC Operating Entity and ensure compliance of good financial and commercial standards and practices; cautiously and efficiently operating its business and handling its matters, and procuring the PRC Operating Entity to follow all applicable laws and perform its obligations under all binding agreements (including but not limited to any agreements entered into between the WFOE and the PRC Operating Entity);
- (c) if the signing and execution of the Exclusive Call Option Agreement and the grant of Equity Call Option are subject to the consent, permission, waiver or authorization of any third party, or approval, permission, exemption or any registration or filing procedures with any government authority (as required by law), the Registered

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Shareholders and the PRC Operating Entity shall exert their best efforts to assist the fulfillment of aforesaid conditions. They shall execute all documents and undertake all actions necessary for transferring the purchased equity interest to WFOE and/or its designated party under the Exclusive Call Option Agreement;

- (d) without the WFOE's prior written consent, at any time from the date of the Exclusive Call Option Agreement, shall not sell, transfer, pledge or otherwise dispose of the PRC Operating Entity, legitimate interest of any assets (tangible assets or intangible assets), business or income, whose value is in excess of RMB1.0 million, or create any encumbrance of any security interest, except for the sale, transfer or pledge to the offshore parent company of the WFOE or any subsidiary directly or indirectly controlled by the WFOE's offshore parent company;
- (e) without the WFOE's written consent, the PRC Operating Entity shall not be dissolved or liquidated, unless otherwise required by the PRC laws. Upon the statutory liquidation of the PRC Operating Entity, the Registered Shareholders shall pay or procure to pay in full any remaining residual value received to the WFOE. If such payment is prohibited by the PRC laws, the Registered Shareholders shall make such payment to the WFOE or its designated party as permitted under the PRC laws;
- (f) without the WFOE's prior written consent, shall not incur, succeed, guarantee or permit the existence of any debt, unless (i) the debts are incurred in the ordinary course of business and not the payables incurred by a loan; and (ii) the debts have been disclosed to and consented in writing by the WFOE;
- (g) all the businesses of the PRC Operating Entity shall be operated in the ordinary course so as to maintain the PRC Operating Entity's asset value, and they shall not take or omit to take any actions which may adversely affect the operational situation and asset value of the PRC Operating Entity. The board of directors of the WFOE is entitled to monitor the PRC Operating Entity's assets and to evaluate whether the WFOE has control over the PRC Operating Entity's assets. In the event that the board of directors of the WFOE deems that the WFOE's asset value or its control over the PRC Operating Entity's assets have been affected by the operating activities of the PRC Operating Entity, the WFOE is entitled to engage legal advisors or other professionals to handle such matters;
- (h) without the WFOE's prior written consent, shall not procure the PRC Operating Entity to enter into any material contracts whose value exceeds RMB1.0 million other than in the ordinary course of business or between the PRC Operating Entity and the offshore parent company of the WFOE, or any subsidiary directly or indirectly controlled by the WFOE's offshore parent company;

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- (i) upon the request of the WFOE, the PRC Operating Entity shall appoint any of the designated parties of the WFOE as the directors, supervisors and/or senior management of the PRC Operating Entity and/or remove the directors, supervisors and/or senior management of the PRC Operating Entity then in office and shall complete all resolutions and filing procedures; the WFOE has the right to require the Registered Shareholders and the PRC Operating Entity to replace such personnel; and
- (j) shall not engage in or allow any activities or actions that may adversely affect the interest of the WFOE under the Exclusive Call Option Agreement.

Undertakings by the Registered Shareholders

The Registered Shareholders irrevocably undertake, among other things, that:

- (a) without the WFOE's prior written consent, at any time from the date of the Exclusive Call Option Agreement, the Registered Shareholders shall not sell, transfer, pledge or otherwise dispose of any legitimate or beneficial interest of the equity interest of the PRC Operating Entity or allow any encumbrance on security interest to be placed on it, except for the pledge to be placed on the equity interest of the PRC Operating Entity pursuant to the Equity Pledge Agreement;
- (b) the Registered Shareholders shall use their best endeavors to develop the business of the PRC Operating Entity and ensure that the PRC Operating Entity is operated in compliance with the laws and regulations and conducts no business operation or any other act that may result in the reputation of the PRC Operating Entity being adversely affected;
- (c) the Registered Shareholders shall take all measures to ensure the legality and effectiveness of all operating licenses of the PRC Operating Entity and renew such licenses on time;
- (d) the Registered Shareholders shall not execute any document or make any undertaking that creates any conflict of interest with any subsisting legal documents executed by the PRC Operating Entity, the WFOE and its designated parties; and the Registered Shareholders shall not cause any conflict of interests between the Registered Shareholders and the WFOE and its shareholders by acts or omissions. In the event of the occurrence of such conflict (subject to the WFOE's sole discretion), the Registered Shareholders shall take measures as soon as possible to eliminate such conflict with the prior consent of the WFOE or its designated parties. The WFOE may exercise the Equity Call Option under the Exclusive Call Option Agreement subject to the PRC laws if the Registered Shareholders refuse to take such measures;

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- (e) without the WFOE's written consent, the Registered Shareholders shall not directly or indirectly participate or engage in any business that competes or may compete with the business of the PRC Operating Entity and its controlled subsidiaries in any manner, or be employed by relevant entities that operate or hold interests or assets in any entities that compete or may compete with the business of the PRC Operating Entity and its controlled subsidiaries (other than holding the equity interest and assets of not more than 5% of such entities). The WFOE is entitled to make the final decision on whether such competition exists or may exist;
- (f) the Registered Shareholders shall not require the PRC Operating Entity to distribute dividends or profits in other manner, arising from any equity interest of the PRC Operating Entity held by the Registered Shareholders, propose any such matters to be resolved on shareholders' meeting or vote in favor of any resolution on shareholders' meeting. However, if the Registered Shareholders receive the revenue, profit distribution or dividends, they shall forfeit such revenue, profit distribution or dividends and forthwith pay or transfer such revenue, profit distribution or dividends to the WFOE or its designated party to the extent permitted under the PRC laws;
- (g) the Registered Shareholders shall procure the meetings of the shareholders and/or the board of directors of the PRC Operating Entity not to approve to sell, transfer, pledge, or otherwise dispose of any legitimate or beneficial interest of the equity interest of the PRC Operating Entity or to allow any encumbrance on security interest to be placed on it, without the WFOE's prior written consent, except for the pledge to be placed on the equity interest of the PRC Operating Entity pursuant to the Equity Pledge Agreement;
- (h) the Registered Shareholders shall procure the meetings of the shareholders and/or the board of directors of the PRC Operating Entity not to approve the merger, partnership, joint venture or amalgamation of the PRC Operating Entity with any person, or the acquisition of or investing in any person, division of the PRC Operating Entity, the amendment of the articles of association of the PRC Operating Entity, changing of the registered capital or changing the corporate structure of the PRC Operating Entity, without the WFOE's prior written consent;
- (i) the Registered Shareholders shall agree to execute an irrevocable Shareholders' Powers of Attorney to the extent satisfactory to the WFOE to assign all of the rights of the Registered Shareholders to the WFOE, or its designated parties; and
- (j) the Registered Shareholders shall ensure that the PRC Operating Entity validly exists and will not be terminated, liquidated or dissolved, unless otherwise required by the WFOE.

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(3) Equity Pledge Agreement

Pursuant to the equity pledge agreement dated March 23, 2021 entered into by and among the WFOE, the PRC Operating Entity and the Registered Shareholders, the Registered Shareholders' equity interests were pledged to the WFOE as a first priority charge, as the collateral for the immediate and complete payment of (a) all payments owed to the WFOE by the PRC Operating Entity; (b) all direct, indirect, derivative losses and loss of predictable benefits the WFOE suffered due to any event of default by the Registered Shareholders and the PRC Operating Entity, the amount of which was based on the reasonable business plan and profit forecast of the WFOE; and (c) all expenses incurred by the WFOE to force the Registered Shareholders and/or the PRC Operating Entity to perform their contractual obligations and the fulfillment of contractual obligations.

The Equity Pledge Agreement shall remain valid until (a) the final secured debt and contractual obligations guaranteed by the pledge have been repaid and satisfied in full; or (b) the WFOE decides to purchase the entire equities of the PRC Operating Entity held by the Registered Shareholders in accordance with the Exclusive Call Option Agreement, as permitted by the PRC laws, and the entire equities of the PRC Operating Entity have been transferred to the WFOE and/or any party designated by it by law, and the WFOE and its subsidiaries and branch companies can legally engage in the business of the PRC Operating Entity; or (c) the WFOE decides to purchase the entire assets of the PRC Operating Entity in accordance with the Exclusive Call Option Agreement, as permitted by the PRC laws, and the entire assets of the PRC Operating Entity have been transferred to the WFOE and/or any party designated by it by law, and the WFOE and its subsidiaries and branch companies can use the above assets to legally engage in the business of the PRC Operating Entity; or (d) the WFOE unilaterally requests to terminate the Equity Pledge Agreement; or (e) the Equity Pledge Agreement is required to be terminated in accordance with applicable PRC laws.

During the pledge period, if the Registered Shareholders and/or the PRC Operating Entity fails to fulfill the contractual obligations or repay the secured debts (including payment of exclusive consulting or service fees in accordance with the Exclusive Business Cooperation Agreement or failure to perform other aspects of any transaction agreement), the WFOE shall have the right, but not obligation, to dispose of the pledge in accordance with the requirement of the Equity Pledge Agreement.

The PRC Operating Entity completed the registration of the Equity Pledge Agreement in accordance with the Measures for Equity Interests Pledges Registration with Administration of Industry and Commerce (《工商行政管理機關股權出質登記辦法》). The pledge under the Equity Pledge Agreement was registered with the relevant registration authority on April 23, 2021 and such registration of the pledge became effective on the same date.

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Event of Default

Any of the following circumstances shall be deemed as an event of default under the Equity Pledge Agreement:

- (a) the Registered Shareholders violate or fail to perform any of their contractual obligations under the Exclusive Call Option Agreement, the Shareholders' Rights Entrustment Agreement and/or the Equity Pledge Agreement, or the PRC Operating Entity violates or fails to perform any of their contractual obligations under the Exclusive Call Option Agreement, the Shareholders' Rights Entrustment Agreement, the Exclusive Business Cooperation Agreement and/or the Equity Pledge Agreement;
- (b) any representation or warranty made by the Registered Shareholders contains material misrepresentation or error, and/or the Registered Shareholders violate any warranty and/or any undertaking under the Equity Pledge Agreement;
- (c) the Registered Shareholders and/or the PRC Operating Entity violate any requirement or provision under the Equity Pledge Agreement;
- (d) save as expressly set out in the Equity Pledge Agreement, the Registered Shareholders transfer or attempt to transfer or relinquish pledged equity or assign pledged equity without written consent from the WFOE;
- (e) the Registered Shareholders' own loan, guarantee, compensation, commitment or other debt liability to any third party (i) is required to be repaid or performed prior to maturity due to default on the part of the Registered Shareholders; or (ii) is due but cannot be repaid or performed on schedule;
- (f) the Registered Shareholders fail to repay general debts or other debts;
- (g) any approval, license, consent, permit or authorization from any governmental authority that makes the Equity Pledge Agreement enforceable, lawful and effective is withdrawn, suspended, invalidated or substantially altered;
- (h) the promulgation of applicable laws makes the Equity Pledge Agreement illegal or makes the Registered Shareholders unable to continue to perform their obligations under the Equity Pledge Agreement;
- (i) adverse change in the properties owned by the Registered Shareholders, which makes the WFOE believe that the Registered Shareholders' ability to perform their obligations under the Equity Pledge Agreement has been affected;

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- (j) the PRC Operating Entity or its successor or trustee can only partially perform or refuse to perform the payment obligations under the Exclusive Business Cooperation Agreement or the Registered Shareholders and/or the PRC Operating Entity can only partially settle or refuse to settle guaranteed debts; and
- (k) any other circumstances in which the WFOE cannot or may not be able to exercise its rights against the pledge.

(4) Shareholders' Powers of Attorney

Each of the Registered Shareholders has executed an irrevocable power of attorney dated on March 23, 2021, exclusively appointing WFOE, or any person designated by WFOE (including but not limited to Directors and their successors and liquidators replacing the Directors), as his or her attorney-in-fact to appoint directors and vote on his or her behalf as set out under the Shareholders' Rights Entrustment Agreement. These Shareholders' Powers of Attorney shall become effective at the same time as the Shareholders' Rights Entrustment Agreement and is irrevocable.

The articles of association of the PRC Operating Entity state that the shareholders, in a shareholders' meeting, have the power to approve its operating strategy and investment plan, elect the members of the board of directors and approve their compensation, and review and approve the annual budget and profit distribution plan. Therefore, through the irrevocable power of attorney arrangement, we and WFOE, have the ability to exercise effective control over the PRC Operating Entity through shareholder votes and, through such votes, to also control the composition of the board of directors for the PRC Operating Entity.

The Powers of Attorney do not impose any conditions on granting the foregoing powers of attorney.

(5) Individual Shareholder Spouse Undertakings

Pursuant to the Individual Shareholder Spouse Undertakings dated on March 23, 2021, the spouse of each of the Registered Shareholders, has undertaken that,

- (a) the spouse of each of the Registered Shareholders has full knowledge of and has consented unconditionally and irrevocably to the entering into of the Exclusive Business Cooperation Agreement, the Exclusive Call Option Agreement, the Shareholders' Rights Entrustment Agreement and the Equity Pledge Agreement (including their respective amendments from time to time) signed by the Registered Shareholders and the WFOE, and agrees that the relevant Registered Shareholders shall dispose of the equity interests in the PRC Operating Entity held and registered in his name according to the provisions of the agreements under the Contractual Arrangements.

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- (b) the equity interests in the PRC Operating Entity held by each of the spouse currently and in the future are the relevant Registered Shareholder's personal property, instead of the joint property of the husband and wife, and the relevant Registered Shareholder has the right to dispose of such equity interests on his own.
- (c) the spouse has not been and will not be involved in the operation, management, liquidation, and dissolution of the PRC Operating Entity.

(6) *Shareholders' Rights Entrustment Agreement*

Pursuant to the Shareholders' Rights Entrustment Agreement, each of the Registered Shareholders has unconditionally and irrevocably authorize the WFOE, or directors of the WFOE's offshore parent company designated by the WFOE, or a liquidator or other successors who perform the duties of such directors to exercise all shareholder's rights as shareholders of the PRC Operating Entity in accordance with the then effective articles of association of the PRC Operating Entity and applicable laws and regulations, and to exercise corresponding rights on behalf of the Registered Shareholders on all major matters of the PRC Operating Entity. Such rights include but are not limited to:

- (a) to propose, convene, and attend the general meeting of the PRC Operating Entity according to the articles of association of the PRC Operating Entity as the agent of the Registered Shareholders;
- (b) to exercise all shareholder's rights and shareholder's voting rights of the Registered Shareholders in accordance with PRC laws and the articles of association of the PRC Operating Entity, including but not limited to dividend rights, and the sale, transfer or pledge or disposal of part or all of the equity interests in the PRC Operating Entity;
- (c) the right to serve as the legal representative of the PRC Operating Entity in accordance with the specific provisions of the articles of association of the PRC Operating Entity on the appointment of its legal representative, or to serve as the chairman, executive director or manager of the PRC Operating Entity and/or act on the behalf of the Registered Shareholders to designate, appoint or dismiss the legal representative (chairman), directors, supervisors, chief executive officer (or manager) and other senior management members of the PRC Operating Entity; where the actions of the directors, supervisors or senior management members of the PRC Operating Entity cause any damage to the interests of the PRC Operating Entity or its shareholders, to file a lawsuit or take other legal actions against such directors or senior management members;
- (d) the right to execute documents (including minutes of the general meeting) and file such documents with the relevant company registry;

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- (e) the right to act on the behalf of the Registered Shareholders of the PRC Operating Entity to exercise their voting rights on the bankruptcy, liquidation, dissolution or termination of the PRC Operating Entity;
- (f) the right to distribute the remaining assets of the PRC Operating Entity upon its bankruptcy, liquidation, dissolution or termination;
- (g) the right to decide matters on submission and registration of documents related to the PRC Operating Entity to and with relevant government departments;
- (h) the right to exercise any shareholders' rights in dealing with the PRC Operating Entity's assets in accordance with the law, including but not limited to the right to manage its assets-related business, the right to use its income and the right to obtain its assets;
- (i) in the event of death, loss of capacity, marriage, divorce or bankruptcy or any other situation which could affect the ability of the Registered Shareholders in exercising its rights in the PRC Operating Entity; the successors of the Registered Shareholders (including spouse, children, parents, siblings, grandparents) will be regarded as a party to the Shareholders' Rights Entrustment Agreement and will assume the rights and obligations of the relevant Registered Shareholders under the Shareholders' Rights Entrustment Agreement;
- (j) any other shareholders' rights stipulated by applicable PRC laws, regulations and the articles of association of the PRC Operating Entity (and its amendments from time to time).

DISPUTE RESOLUTION

Each of the agreements under the Contractual Arrangements provides that any dispute arising out of or in connection with the performance of the agreements under the Contractual Arrangements shall be resolved through arbitration. The arbitration commission shall have the right to award remedies over the equity interest and property interest and other assets of the PRC Operating Entity. Upon the request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of PRC, Hong Kong, the Cayman Islands and the place where the principal assets of WFOE and the PRC Operating Entity are located shall be considered as having jurisdiction for the above purposes.

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In connection with the dispute resolution method as set out in the agreements under the Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Advisor that:

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

As a result of the above, in the event that the PRC Operating Entity or the Registered Shareholders breaches any of the agreements under the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, or at all, and our ability to exert effective control over the PRC Operating Entity and conduct our business could be materially and adversely affected. Please refer to the paragraph headed “Risk Factors – Risks Relating to our Contractual Arrangements” in this document for details.

LOSS SHARING

None of the agreements constituting the Contractual Arrangements provide that the Company or WFOE is obligated to share the losses of the PRC Operating Entity or provide financial support to the PRC Operating Entity. Further, the PRC Operating Entity 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 WFOE, as the primary beneficiary of the PRC Operating Entity, is not required to share the losses of the PRC

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Operating Entity or provide financial support to the PRC Operating Entity. Despite the foregoing, given that our Group conducts its businesses in the PRC through the PRC Operating Entity which hold the requisite PRC licenses and approvals, and that the PRC Operating Entity's financial condition and results of operations are consolidated into our Company's consolidated financial statements under the applicable accounting principles, our Company's business, financial condition and results of operations would be adversely affected if the PRC Operating Entity suffer losses. Therefore, the provisions in the Contractual Arrangements are tailored so as to limit, to the greatest extent possible, the potential adverse effect on WFOE and our Company resulting from any loss suffered by the PRC Operating Entity.

For instance, as provided in the Exclusive Call Option Agreements, none of the assets valued above RMB1,000,000 of the PRC Operating Entity are to be sold, transferred or otherwise disposed of without the written consent of WFOE. In addition, under the Exclusive Call Option Agreements, none of the Registered Shareholders may transfer or permit the encumbrance of or allow any guarantee or security to be created on any of his or her equity interests in the PRC Operating Entity without our WFOE's prior written consent.

In addition, under the Exclusive Business Cooperation Agreement, without the prior consent of WFOE, the PRC Operating Entity shall not change or remove the members of the boards of directors who are appointed by WFOE in accordance with the memorandum and articles of association of the PRC Operating Entity. WFOE also has the right to appoint the general managers, finance manager and other senior managers of the PRC Operating Entity. WFOE has absolute control over the distribution of dividends or any other amounts to the shareholders of the PRC Operating Entity as the PRC Operating Entity and its shareholders have undertaken not to make any distribution without the prior written consent of WFOE. WFOE also has the right to periodically receive or inspect the accounts of the PRC Operating Entity and the financial results of the PRC Operating Entity can be consolidated into our Group's financial information as if they were our Group's subsidiaries.

TERMINATION OF THE CONTRACTUAL ARRANGEMENTS

In the event that PRC laws and regulations allow WFOE or us to directly hold all or part of the equity interest in the PRC Operating Entity and operate the Relevant Business in the PRC, WFOE shall exercise the Equity Call Option as soon as practicable and WFOE or its designated party shall purchase such amount of equity interest to the extent permissible under PRC laws and regulations, and upon exercise in full of the Equity Call Option and the acquisition of all the equity interest in the PRC Operating Entity by WFOE or another party designated by our Company pursuant to the terms of the Exclusive Call Option Agreement, each of the Contractual Arrangements shall be automatically terminated. WFOE shall have the right to terminate the Contractual Arrangements by serving a prior written notice.

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INSURANCE

There are certain risks involved in our operations, in particular, those relating to our corporate structure and the Contractual Arrangements. For detailed discussion on the material risks involved in our Contractual Arrangements, please refer to the paragraph headed “Risk Factors – Risks relating to our Contractual Arrangements” in this document. As confirmed by our Directors, after considering the costs of insurance for the risks associated with business liability or disruption and the difficulties associated with acquiring such insurance on commercially reasonable terms, it is impracticable for us to have such insurance. As a result, as of the Latest Practicable Date, our Company does not maintain any insurance policy to cover the risks relating to the Contractual Arrangements. For further details on related risks, please refer to the paragraph headed “Risk Factors – Risks relating to our business and industry – We have limited insurance to cover our potential losses and claims.” in this document.

SUCCESSION

The provisions set out in the agreements under the Contractual Arrangements are also binding on the successors of the Registered Shareholders, as if each of the successors was a signing party to the agreements under the Contractual Arrangements. Although our Contractual Arrangements do not specify the identity of the successors to such shareholders, under the succession law 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 agreements under the Contractual Arrangements. In case of a breach, WFOE or our Company can enforce its right against the successors.

ARRANGEMENT TO ADDRESS POTENTIAL CONFLICT OF INTEREST

To ensure our effective control over the PRC Operating Entity, we have implemented measures to protect against the potential conflicts of interest between our Company and the Registered Shareholders. Pursuant to the Exclusive Call Option Agreement, the Registered Shareholders granted WFOE or its designated third party an exclusive option to purchase part or all of the equity interests in the PRC Operating Entity, under circumstances in which WFOE or its designated third party is permitted under the PRC laws and regulations to own all or part of the equity interests in the PRC Operating Entity. Under the irrevocable Shareholders’ Powers of Attorney executed by each of the Registered Shareholders, they appointed WFOE, or any person designated by WFOE (excluding the Registered Shareholders or other persons who may give rise to conflicts of interests) as their respective attorney-in-fact to appoint directors and vote on their behalf on all matters of the PRC Operating Entity requiring shareholders’ approval under their articles of associations and under the relevant PRC laws and regulations.

Furthermore, there are mechanisms in place to protect against the spouses of the Registered Shareholders from exercising any control or influence over the PRC Operating Entity. Each of the spouses of the Registered Shareholders had executed the Individual

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Shareholder Spouse Undertakings whereby the spouse expressly and irrevocably (i) acknowledge the entering into of the Contractual Arrangements by the Registered Shareholders (as the case may be); (ii) undertake that she shall not take any actions that are in conflict with purpose and intention of the Registered Shareholders, including but not limited to acknowledging that any equity interests held by the Registered Shareholders (as the case may be) do not fall within the scope of their community properties; and (iii) confirm that her consent and approval is not required for the implementation of the Contractual Arrangements, any amendments thereto or the termination thereof.

Pursuant to the Exclusive Call Option Agreement, without the WFOE’s written consent, the Registered Shareholders shall not directly or indirectly participate or engage in any business that competes or may compete with the business of the PRC Operating Entity and its controlled subsidiaries in any manner, or be employed by relevant entities that operate or hold interests or assets in any entities that compete or may compete with the business of the PRC Operating Entity and its controlled subsidiaries (other than holding the equity interest and assets of not more than 5% of such entities). Based on the above, our Directors are of the view that the measures that we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between our Group and the Registered Shareholders and that these measures are sufficient to protect our Group’s interest in the PRC Operating Entity.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the FIL

On March 15, 2019, the second meeting of the 13th National People’s Congress of PRC approved the PRC Foreign Investment Law (《中華人民共和國外商投資法》) (the “**FIL**”) which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Implementation Rules of the PRC Foreign Investment Law (《中華人民共和國外商投資法實施條例》), which came into effect on January 1, 2020. The FIL replaced the PRC Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law of the PRC and the Wholly Foreign-invested Enterprise Law of the PRC to become the legal foundation for foreign investment in the PRC. The FIL stipulates three specific forms of foreign investment but does not explicitly stipulate the contractual arrangements as a form of foreign investment.

The Potential Impact of the FIL on the Contractual Arrangements

The FIL specifically stipulates three specific forms of foreign investment, namely, (1) establishment of a foreign invested enterprise in the PRC by a foreign investor, either individually or collectively with any other investor; (2) obtaining shares, equity interests, proportion of assets or any other similar rights or interests of an enterprise in the PRC by a foreign investor; and (3) investment to initiate any new project in the PRC by a foreign investor, either individually or collectively with any other investor.

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Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in the PRC. The FIL does not explicitly prohibit or restrict a foreign investor to rely on contractual arrangements to conduct the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. Our PRC Legal Advisor is of the view that if there is no other promulgated national laws, regulations or administrative rules prohibiting or restricting the operation of or affecting the legality of contractual arrangements, the validity of our Contractual Arrangements may not be affected. However, there remains uncertainty regarding whether future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled, See "Risk Factors – Risks Relating to Our Contractual Arrangements." Our Company will disclose, as soon as possible, updates of changes to the FIL that will materially and adversely affect our Company as and when occur.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

PRC Legal Opinions

Based on the above, our PRC Legal Advisor is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with the relevant PRC laws and regulations and that:

- (a) both the WFOE and the PRC Operating Entity are independent legal entities and were duly established and in valid existence under PRC laws. The Registered Shareholders have full civil rights and civil capacity;
- (b) each of the agreements under the Contractual Arrangements is not in violation of the provisions of the articles of association of the WFOE and the PRC Operating Entity;
- (c) each of the agreements under the Contractual Arrangements does not violate the provisions of the laws promulgated by the National People's Congress of China and its Standing Committee, and the administrative regulations promulgated by the State Council, and is valid and binding on and enforceable against the relevant parties of each of the agreements, except that (1) the provisions pursuant to which the arbitral body may make a ruling for the dissolution of the PRC Operating Entity may not be enforceable under the existing PRC laws; (2) the interim relief or other rulings of the courts in Hong Kong and the Cayman Islands in respect of the matters under the Contractual Arrangements may not be recognized and enforceable under the PRC laws; (3) the pledge of equity interests in the PRC Operating Entity in favor of the WFOE might not become legally effective until the registration of the pledge is completed with the Administration for Market Regulation; and (4) the exercise of

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the option to purchase the equity interests in the PRC Operating Entity under the Contractual Arrangements is subject to the requirements of the then applicable PRC laws, and the approval or registration procedures in accordance with the then applicable PRC laws;

- (d) MIIT is the competent regulatory authority to provide feedback on matters such as the regulations and policy restrictions on whether foreign investors are allowed to invest in value-added telecommunications business as well as the implementation thereof, and whether the signing and performance of the Contractual Arrangements should be submitted to the relevant regulatory authorities for approval;
- (e) the execution and performance of the Contractual Arrangements do not violate the provisions of “malicious collusion is conducted to damage others’ legitimate rights and interests” as stipulated in Civil Code of the PRC (《中華人民共和國民法典》); and
- (f) as of the date of the PRC Legal Opinion, the PRC governmental, legislative, judicial and other authorities have not yet promulgated any regulations which prohibit the signing and performance of the Contractual Arrangements by the parties thereto. The PRC Legal Advisor was not aware of any plans to do so by the aforementioned authorities. The aforementioned authorities may hold opinions contrary to the PRC Legal Advisor’s and may change the relevant provisions or interpretations with respect to the Contractual Arrangements, or consider that the agreements under the Contractual Arrangements are not compliant with the requirements of the PRC laws currently in force or the laws, regulations, rules or regulatory documents which will be promulgated in the future. The PRC Legal Advisor cannot guarantee that the relevant authorities will not promulgate any new laws and regulations that may be applicable to the Contractual Arrangements which will render the Contractual Arrangements in breach of the relevant laws and regulations, and thereby denying the legality, validity and enforceability of the Contractual Arrangements.

Directors’ Views on the Contractual Arrangements

We believe that the Contractual Arrangements are narrowly tailored because the Contractual Arrangements are only used to enable our Group to consolidate the financial results of the PRC Operating Entity which engage or will engage in the operation of the Relevant Business, which are subject to foreign investment restriction in accordance with applicable PRC laws and our consultation with the MIIT.

As of the Latest Practicable Date, we did not encounter any interference or encumbrance from any governing bodies in our plan to adopt the Contractual Arrangements so that the financial results of the operation of the PRC Operating Entity can be consolidated to those of our Group, and based on the advice of our PRC Legal Advisor, our Directors are of the view that the Contractual Arrangements are enforceable under PRC laws and regulations, with the exceptions disclosed in the paragraph headed “– PRC Legal Opinions” in this section.

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The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon the [REDACTED] and it is impracticable and unduly burdensome for them to be subject to the relevant requirements under the Listing Rules as our Directors are of the view that the transactions contemplated under the Contractual Arrangements are fundamental to our Group’s legal structure and business operations, that such transactions have been and shall be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. See “Connected Transactions” in this document.

COMBINATION OF FINANCIAL RESULTS OF THE PRC OPERATING ENTITY

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by WFOE, the PRC Operating Entity will pay service fees to WFOE. The service fees, subject to WFOE’s adjustment, are equal to the entirety of the total income of the PRC Operating Entity (net of costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). WFOE may adjust the service fees at its discretion, subject to applicable rules and regulations, and allow the PRC Operating Entity to retain sufficient working capital to carry out any growth plans. WFOE also has the right to periodically receive or inspect the accounts of the PRC Operating Entity. Accordingly, WFOE has the ability, at its sole discretion, to extract substantially all of the economic benefit of the PRC Operating Entity through the Exclusive Business Cooperation Agreement.

In addition, under the Exclusive Business Cooperation Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of the PRC Operating Entity as WFOE’s prior written consent is required before any distribution can be made. Further, under the Exclusive Call Option Agreement, in the event that the Registered Shareholders of the PRC Operating Entity receive any profit distribution or dividend from the PRC Operating Entity, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to WFOE.

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

In this regard, our Directors consider that the Company can combine the financial results of the PRC Operating Entity into our Group’s financial information as if they were our Company’s subsidiaries. The basis of combining the results of the PRC Operating Entity is disclosed in note 3 to the Accountants’ Report set out in Appendix I to this document.

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DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the FIL

On March 15, 2019, the 2nd meeting of the 13th Standing Committee of the National People’s Congress approved the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) (the “**FIL**”) which came into effect on January 1, 2020. After the FIL comes into effect, the FIL replaced the Law on Sino-Foreign Equity Joint Ventures (《中外合資經營企業法》), the Law on Sino-Foreign Cooperative Joint Ventures (《中外合作經營企業法》) and the Law on Foreign-invested Enterprises (《外資企業法》) to become the legal foundation for foreign investment in the PRC. On December 26, 2019, the State Council promulgated Implementing Regulation of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**Foreign Investment Regulation**”), which came into effect on January 1, 2020. For details of the FIL and Foreign Investment Regulation, please refer to the paragraph headed “Regulatory Overview – Laws and regulations relating to foreign investment” in this document.

The Potential Impact of the FIL on the Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control of the PRC Operating Entity, through which we operate our business in the PRC. The FIL stipulates four forms of investment as foreign investment, however, it does not explicitly stipulate the contractual arrangements as a form of foreign investment. Nor does it explicitly prohibit or restrict a foreign investor to rely on contractual arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. Notwithstanding the above, the FIL stipulates that foreign investment includes “Foreign Investors invest in China through many other methods under laws, administrative regulations or provisions prescribed by the State Council”. Although the Foreign Investment Regulation promulgated by the State Council as disclosed above does not expressly stipulate the contractual arrangements as a form of foreign investment, there are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard the Contractual Arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of the PRC Operating Entity will not be materially and adversely affected in the future due to changes in the relevant PRC laws and regulations. In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. For further details, please refer to the paragraphs headed “Risk Factors – Risks relating to our Contractual Arrangements – Our current corporate structure and business operations may be affected by the Foreign Investment Law” in this document. In any event, we will take reasonable steps in good faith to seek compliance with the FIL and Foreign Investment Regulation.

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COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual and interim reports to update the Shareholders and potential [REDACTED];
- (d) our Company and our Directors undertake to provide periodic updates in our annual and interim reports regarding the Qualification Requirement and our status of compliance with the FIL and the Foreign Investment Regulation as stipulated under the paragraphs headed “– Development in the PRC Legislation on Foreign investment” in this section; including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet the Qualification Requirement;
- (e) our Company will disclose, as soon as possible (i) any updates of changes to the FIL and the Foreign Investment Regulation that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of the updates of changes in FIL and the Foreign Investment Regulation as implemented, specific measures taken by us to fully comply with the changes in the FIL and the Foreign Investment Regulation supported by a PRC legal opinion and any material impact on our operations and financial position; and
- (f) our Company will engage external legal advisors or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and the PRC Operating Entity to deal with specific issues or matters arising from the Contractual Arrangements.

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In addition, notwithstanding that one of our executive Directors and one of our non-executive Directors 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 after the [REDACTED] under the following measures:

- (a) 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 practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (b) each of our Directors is aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefits and in the best interests of our Group;
- (c) we have appointed Mr. Li Xinshou, Ms. Kong Fanhua and Prof. Li Renfa independent non-executive Directors, comprising over 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
- (d) we will disclose in our announcements, circulars, annual and interim reports 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 associates 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.