

## CONTRACTUAL ARRANGEMENTS

### BACKGROUND

We are an internet company in China, offering video- and audio-based live entertainment and social networking services to our users. Business in certain areas we currently operate or intend to operate are subject to restrictions and prohibitions under current PRC laws and regulations. After consultation with our PRC Legal Advisor, we determined that it was not viable for our Company to acquire and hold the equity interest in the Consolidated Affiliated Entities under the applicable PRC laws and regulations, which hold the requisite permit and approval required for our business, including but not limited to (1) Value-Added Telecommunications Business Operating License, also known as the “ICP License” (增值電信業務經營許可證(ICP許可證)), (2) Online Culture Operating License (網絡文化經營許可證) and (3) Information Network Dissemination of Audiovisual Programs Permit (信息網絡傳播視聽節目許可證).

The relevant licenses obtained by our Consolidated Affiliated Entities are as follows:

<b>Consolidated Affiliated Entities</b>	<b>Principal Activity</b>	<b>Relevant Licenses Obtained</b>
Huafang Technology	Live streaming	(i) ICP License, (ii) Online Culture Operating License and (iii) Information Network Dissemination of Audiovisual Programs Permit (信息網絡傳播視聽節目許可證)
Mijing Hefeng	Live streaming	(i) ICP License, and (ii) Online Culture Operating License
Hainan Kailin	Live streaming related business and intends to carry out more businesses which are subject to foreign investment restrictions, including but not limited to live streaming business	(i) Online Culture Operating License, and (ii) ICP License
Huafang Canlan	Has not commenced business operations within the PRC but intends to carry out businesses which are subject to foreign investment restrictions, including but not limited to live streaming business	(i) ICP License, and (ii) Online Culture Operating License

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Consolidated Affiliated Entities	Principal Activity	Relevant Licenses Obtained
Holla Technology (formerly known as Mizhi Technology)	Live streaming business, and social networking service and intends to carry out more businesses which are subject to foreign investment restrictions, including but not limited to live streaming related business	(i) ICP License, and (ii) Online Culture Operating License
Chengdu Huayang	Has not commenced business operations within the PRC but intends to carry out businesses which are subject to foreign investment restrictions, including but not limited to live streaming business	(i) ICP License, and (ii) Online Culture Operating License
Maijike	Social networking service	(i) ICP License, and (ii) Online Culture Operating License
Sichuan Huayin	Live streaming business and social networking service	(i) ICP License, and (ii) Online Culture Operating License
Ruzuo Technology	Live streaming business	(i) ICP License, and (ii) Online Culture Operating License
Beijing Hongfa and Chengdu Yuanjin Culture Media Co., Ltd. (成都元錦文化傳媒有限公司) (“Chengdu Yuanjin”) <sup>(1)</sup>	Have not commenced business operations within the PRC but intends to carry out businesses which are subject to foreign investment restrictions, including but not limited to live streaming business	–

(1) Beijing Hongfa and Chengdu Yuanjin do not hold any specific foreign restricted/prohibited license and Beijing Hongfa and Chengdu Yuanjin have not yet commenced substantive business operations and are not expected to commence any substantive business operations by the time of the [REDACTED]. Beijing Hongfa is expected to conduct entertainment live stream business to attract the users living in third- and fourth-tier cities and the users aged over 40. We will undertake to procure Beijing Hongfa and Chengdu Yuanjin not to conduct any businesses that are not subject to foreign investment restrictions or prohibitions, and to the extent that Beijing Hongfa or Chengdu Yuanjin does, we will transfer Beijing Hongfa and Chengdu Yuanjin outside the scope of the Contractual Arrangements prior to engaging in any unrestricted businesses in order to ensure that our Contractual Arrangements are narrowly tailored.

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Based on the above and considering that Beijing Hongfa and Chengdu Yuanjin did not generate revenues during the Track Record Period and the assets of Beijing Hongfa and Chengdu Yuanjin are nil as of the Latest Practicable Date, the Company controls Beijing Hongfa and Chengdu Yuanjin through the Contractual Arrangements.

As a result of the foregoing, we decided that, in line with common practice in industries subject to foreign investment restrictions or prohibitions in the PRC, we would gain effective control over, and receive all of the economic benefits generated by the business currently operated by our Consolidated Affiliated Entities through a series of Contractual Arrangements we entered into with Huafang Technology and the Registered Shareholders on October 18, 2021 and further amended on September 8, 2022. The revenue generated from the Contractual Arrangements was RMB2,830.9 million, RMB3,683.5 million, RMB4,481.4 million and RMB2,021.1 million in 2019, 2020, 2021 and the five months ended May 31, 2022, respectively.

The agreements underlying such Contractual Arrangements include: (1) exclusive business co-operation agreement, (2) exclusive option agreement, (3) equity pledge agreement, (4) shareholders’ rights proxy agreement, and (5) spousal consent letter, the details of such agreements are set out in the paragraph headed “Details of the Contractual Arrangements” in this section.

Pursuant to the Contractual Arrangements, all substantial and material business decisions of the Consolidated Affiliated Entities will be instructed and supervised by our Group, through our WFOE, and all risks arising from the business of the Consolidated Affiliated Entities are also effectively borne by our Group as a result of such Consolidated Affiliated Entities being treated as our wholly-owned subsidiaries. Financial positions and results of operations of the Consolidated Affiliated Entities were consolidated into our financial position and results of operations under IFRSs as if they were subsidiaries of our Group even though we do not directly own any equity interest in our Consolidated Affiliated Entities during the Track Record Period. Therefore, our Group operates and controls 100% of our online live streaming and social networking businesses in the PRC. Accordingly, our Directors consider that it is fair and reasonable for our WFOE to be entitled to all economic benefits generated by the business operated by the Consolidated Affiliated Entities through the Contractual Arrangements as a whole.

### REASONS FOR ADOPTION OF THE CONTRACTUAL ARRANGEMENTS

Foreign investment activities in the PRC are mainly governed by Catalog of Industries Encouraging Foreign Investment, or the Encouraging Catalog and the Special Administrative Measures (Negative List) for the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), or the 2021 Negative List, which have been promulgated and amended from time to time jointly by the MOFCOM and the NDRC. The Encouraging Catalog sets forth the industries in which foreign investment is encouraged, while the 2021 Negative List sets forth the industries in which foreign investment is restricted or prohibited. The current version of the Negative List

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contains specific provisions on, among others, (1) market access of foreign capital; and (2) the areas of entry pertaining to the categories of restricted foreign investment industries and prohibited foreign investment industries.

A summary of our businesses that are subject to foreign investment restriction or prohibition in accordance with the 2021 Negative List and other applicable PRC laws and regulations (collectively, the “Relevant Businesses”) is set out below:

<b>Categories</b>	<b>Relevant Business</b>
Value-added Telecommunication Services Business ( <i>Restricted</i> )	The online live streaming business engaged by Mijing Hefeng via <i>Huajiao</i> and Huafang Technology via <i>6.cn</i> is carried out through internet. Such business falls within the scope of telecommunications and information services provided through public network infrastructure (defined as “value-added telecommunication services business”) under the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, and the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), or the FITE Regulations, promulgated by the State Council, taking effect on January 1, 2002 and last amended on March 29, 2022.

According to the 2021 Negative List and other applicable PRC laws, foreign investors are not allowed to hold more than 50% of the equity interests in an enterprise conducting value-added telecommunications services business (excluding electronic commerce, domestic multiparty communication, storage-forwarding and call center).

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Categories	Relevant Business
Internet Cultural Businesses ( <i>Prohibited</i> )	The online live streaming business and the operation of PK system, multiparty streaming and online interactive channels for users to share text, image and short video engaged by Mijing Hefeng via <i>Huajiao</i> and Huafang Technology via <i>6.cn</i> constitute “internet cultural businesses” as defined under the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》), promulgated by the MOC on May 10, 2003 and last amended on December 15, 2017. According to the 2021 Negative List and other applicable PRC laws, foreign investors are prohibited from holding equity interest in an enterprise carrying out “internet cultural business” (excluding music).
Transmission of Audio-Visual Programs ( <i>Prohibited</i> )	<p>The live streaming businesses engaged by certain of our Consolidated Affiliated Entities involve Internet audio-visual programs, which constitute “Transmission of Audio-Visual Programs” as defined under Administrative Regulations on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》) promulgated by the SARFT and the MII on December 20, 2007 and last amended on August 28, 2015.</p> <p>According to the 2021 Negative List and other applicable PRC laws, foreign investors are prohibited from holding equity interest in an enterprise carrying out the business of transmission of audio-visual programs via information network.</p>

### The Relevant Business

We operate the Relevant Business under the Contractual Arrangement and are of the view that the Contractual Arrangement are narrowly tailored for the reasons as explained in the paragraph below.

We operate online live streaming and social networking business through our Consolidated Affiliated Entities.

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*(i) Online Live Streaming Businesses*

We operate online live streaming businesses through Huafang Technology, Mijing Hefeng, Hainan Kailin and Ruzuo Technology. As advised by our PRC Legal Advisor, our operation of online live streaming businesses involves providing a mix of (i) internet information services, a subcategory of value-added telecommunication services (which is a “restricted business”), (ii) internet cultural business (which is a “prohibited business”) and/or transmission of audio-visual program services (which is a “prohibited business”), under applicable PRC laws and regulations. These entities are required to hold the relevant licenses, including (i) ICP License, (ii) ICB License and/or Audio-Visual Permit to carry out such businesses.

*(ii) Online Live Streaming Businesses and Social Networking Services*

Holla Technology, Sichuan Huayin and Maijike engage in the operation of online live streaming businesses and social networking services. Sichuan Huayin and Maijike are involved in social networking services only in the PRC. In particular, Sichuan Huayin is involved in the development of the Company’s audio-based app *Naitang*, and Maijike is expected to be engaged in the incubation of social networking products in the PRC. Please refer to the section headed “Business — Our Platform — Naitang” in this document for further information. Each of Holla Technology, Sichuan Huayin and Maijike holds an ICB License and an ICP License. As advised by our PRC Legal Advisor, our operation of online live streaming businesses and social networking services falls within the scope of “internet cultural business” and “value-added telecommunication services”. According to the 2021 Negative list and other applicable PRC laws, while foreign investors are allowed to hold no more than 50% equity interests in an enterprise conducting value-added telecommunication services, and foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business.

*(iii) Other Entities*

Each of Huafang Canlan and Chengdu Huayang holds an ICB License and an ICP License while they have not yet commenced substantive business operations. Beijing Hongfa does not hold specific foreign restricted/prohibited license currently and it has not yet commenced substantive operations.

Huafang Canlan, Chengdu Huayang and Beijing Hongfa are not expected to commence any substantive business operations by the time of the [REDACTED]. We will undertake to procure these entities not to conduct any businesses that are not subject to foreign investment restrictions or prohibitions, and to the extent that any of these entities does, we will transfer such entity outside of the Contractual Arrangements prior to engaging in any unrestricted businesses.

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As advised by our PRC Legal Advisor, and as confirmed in the consultation with the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部) on June 24, 2021 (“MCT Consultation”) and BMRTB on July 12, 2021 (“BMRTB Consultation”) conducted by our PRC Legal Advisor and the PRC legal advisor of the Joint Sponsors, we cannot acquire any equity interest in our Consolidated Affiliated Entities directly, under the 2021 Negative list and other applicable PRC laws, as foreign investors are prohibited from holding any equity interests in a PRC enterprise engaging in internet cultural business (excluding music) or transmission of audio-visual program.

As advised by our PRC Legal Advisor, and as confirmed in the consultation with the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) on July 13, 2021 (“MIIT Consultation”) conducted by our PRC Legal Advisor and the PRC legal advisor of the Joint Sponsors, under the 2021 Negative list and other applicable PRC laws, as foreign investors are restricted from holding more than 50% of the equity interests in an enterprise providing internet information services, which are categorized as “value-added telecommunications service business”. Additionally, the internet information services provided by Our Consolidated Affiliated Entities are integrated into the operation of our online live streaming and social networking business and cannot be separated from internet cultural businesses and transmission of audio-visual programs, which fall under the “foreign-prohibited” business category.

On March 29, 2022, the State Council promulgated the Decision on Revising and Repealing Some Administrative Regulations (Order No. 752), according to which, the New Regulations for the Administration of Foreign-Invested Telecommunications Enterprises will be amended so that, among others, starting from May 1, 2022, the requirement that “a foreign major investor of a foreign-invested telecommunications enterprise which operates value-added telecommunication business shall have good track-record and operational experience in the operation of value-added telecommunication business” (Qualification Requirements) will no longer exist. As such, upon approval, foreign investors without a good track-record and operational experience may be allowed to hold no more than 50% of the equity interests of a company providing value-added telecommunications services. However, as of the Latest Practicable Date, no applicable PRC laws and regulations have provided clear guidance, and it remains uncertain as to the interpretation and enforcement of the amendment.

We offer video- and audio-based live entertainment and social networking services to our users through our Consolidated Affiliated Entities, which hold the requisite permits and approvals required for our business, including but not limited to the ICP License, the Online Culture Operating License and/or the Information Network Dissemination of Audio-Visual Programs Permit. Due to the nature of the business, the provision of value-added telecommunication service cannot be segregated from conducting online culture operation and dissemination of audio-visual programs, which shall be conducted through the same platforms. According to the 2021 Negative List, foreign investors are prohibited from holding any equity interests in a PRC enterprise engaging in internet cultural business (excluding music) or transmission of audio-visual program. As of the Latest Practicable Date, for the businesses which we operate fall within the “foreign-prohibited” business categories under the 2021

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Negative List, we are unable to obtain the requisite permits and approvals through any Sino-foreign equity joint venture or wholly-owned foreign investment entity. Therefore, as advised by our PRC Legal Advisor, the legality of our Contractual Arrangements structure shall not be affected by the New Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, or the Order No.752.

Based on the above, we believe that to maintain the business operations and the effectiveness of license and permits held by our Consolidated Affiliated Entities, our Consolidated Affiliated Entities must be controlled by the Company through the Contractual Arrangements. Furthermore, since the businesses operated by Consolidated Affiliated Entities fall within both “foreign-prohibited” and “foreign-restricted” business categories under the 2021 Negative List, we are unable to set up any alternative structure that allows us to partly hold equity interests in and partly control the economic benefits of this entity via the Contractual Arrangements.

Therefore, we are of the view that our Contractual Arrangements are narrowly tailored, as they are used to merely enable our Group to conduct businesses in industries that are subject to foreign investment prohibitions in China.

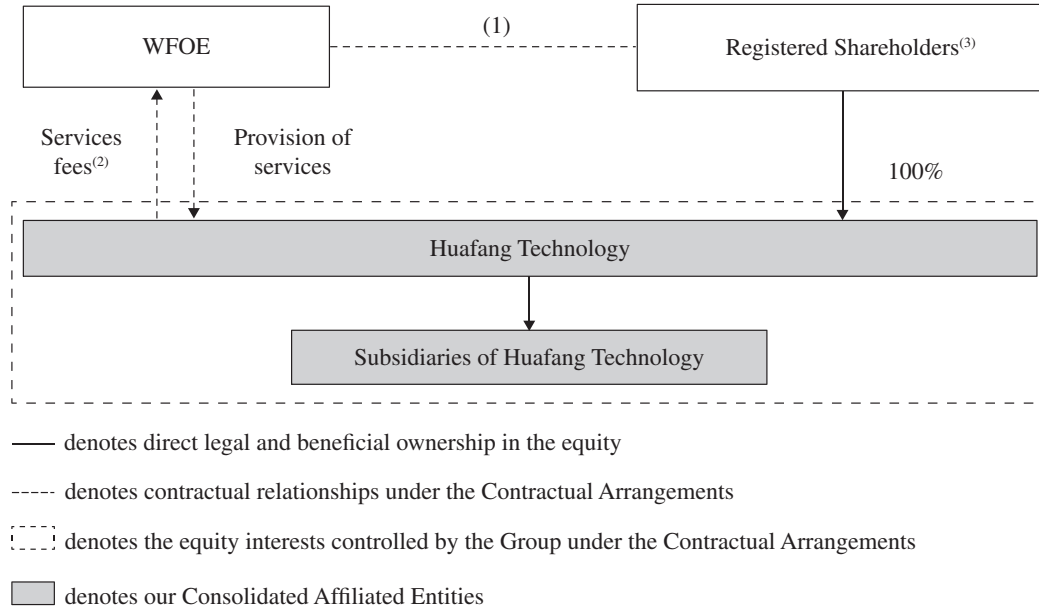
Pursuant to the Contractual Arrangements, in the event that PRC laws and regulations allow Chengdu Huafang Online Technology Co., Ltd., our WFOE, or its shareholders to directly hold all or part of the equity interest in our Consolidated Affiliated Entities, and conduct the Relevant Business directly, our WFOE or its designated purchasers will exercise the call option as soon as possible under the exclusive option agreement entered into among our WFOE, Huafang Technology and the Registered Shareholders on October 18, 2021 and further amended on September 8, 2022. The percentage of equity interest of Huafang Technology to be purchased upon such exercise of the call option should not be lower than the maximum percentage then allowed to be held by our WFOE or its respective shareholders under PRC laws and regulations.



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### DETAILS OF THE CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of the economic benefit from the Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



- (1) Control of WFOE over Huafang Technology through the following agreements with the Registered Shareholders: (i) Exclusive option to acquire any or all of the equity interests and/or assets in the Consolidated Affiliated Entities, please see the paragraph headed “Details of the Contractual Arrangements — Exclusive Option Agreement” in this section for details; (ii) Equity pledge over the entire equity interests in the Consolidated Affiliated Entities, please see the paragraph headed “Details of the Contractual Arrangements — Equity Pledge Agreement” in this section for details; (iii) Shareholders’ rights proxy agreements for appointment of WFOE to exercise all shareholder’s rights in the Consolidated Affiliated Entities, please see the paragraph headed “Details of the Contractual Arrangements — Shareholders’ Rights Proxy Agreement” in this section for details.
- (2) Control of WFOE over the Consolidated Affiliated Entities through exclusive business co-operation agreements. Please see the paragraph headed “Details of the Contractual Arrangements — Exclusive Business Co-operation Agreement” in this section for details.
- (3) The Registered Shareholders refer to the registered shareholders of Huafang Technology. Huafang Technology was owned as to 26.67% by Qihoo 360 Software (Beijing) Co., Ltd. (奇虎三六零軟件(北京)有限公司), 7.69% by Tianjin Huajiao No. 1 Technology Limited Partnership (天津花椒壹號科技合夥企業(有限合夥)), 3.85% by Tianjin Huajiao No. 2 Technology Limited Partnership (天津花椒貳號科技合夥企業(有限合夥)), 37.06% by Songcheng Performance Development Co., Ltd. (宋城演藝發展股份有限公司), 1.75% by Jinhua Xuance Investment Management Co., Ltd. (金華萱策投資管理有限公司), 0.69% by Jinhua Duanxuan Investment Management General Partnership (G.P.) (金華端萱投資管理合夥企業(普通合夥)), 3.85% by Beijing Siming Juncheng Technology Co., Ltd (北京思明駿程科技有限公司), 1.54% by Mango Culture Creativity (Shanghai) Equity Investment Limited Partnership (L.P.) (芒果文創(上海)股權投資基金合夥企業(有限合夥)), 1.31% by Shenzhen Zhirun No. 1 Investment Limited Partnership (L.P.) (深圳致潤一號投資合夥企業(有限合夥)), 3.07% by Shenzhen Zhirun No. 2 Investment Limited Partnership (L.P.) (深圳致潤二號投資合夥企業(有限合夥)), 2.63% by Shanghai Zuosan Digital Technology Co., Ltd. (上海佐三數字科技有限公司), 0.18% by Ningbo Meishan Free Trade Port Area Huajiao Equity Investment Limited Partnership (L.P.) (寧波梅山保稅港區花椒股權投資中心(有限合夥)), 0.38% by Shanghai Huawei Equity Investment Limited Partnership (L.P.) (上海驊偉股權投資基金合夥企業(有限合夥)), 0.19% by Great Chilicosm (Kunshan) Cultural Investment Partnership (L.P.) (三千世界(昆山)文化產業投資合夥企業(有限合夥)), 2.89% by Zhang Fa and 6.25% by Tianjin Huafang Feiteng Technology Center (L.P.) (天津花房飛騰科技中心(有限合夥)) as of the Latest Practicable Date. Mr. Zhou controlled 38.21% equity interest of Huafang Technology through Qihoo 360, Huajiao No. 1 and Huajiao No. 2.

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Our Registered Shareholders consist of PRC national, namely Zhang Fa (the “Individual Registered Shareholder”), and PRC domestic companies or PRC limited partnership enterprises (collectively, the “Corporate Registered Shareholders”). Each of the Registered Shareholders have executed an Exclusive Option Agreement, an Exclusive Option Supplemental Agreement, a Shareholders’ Rights Proxy Agreement and a Shareholders’ Rights Proxy Supplemental Agreement (as defined below). Each of the Registered Shareholders have granted security interests in favor of WFOE, over the entire equity interests in Huafang Technology held by such Registered Shareholders and have registered such pledges with the relevant PRC authorities. Thus, the Corporate Registered Shareholders and Individual Registered Shareholder 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 Individual Registered Shareholder, and the WFOE is able to gain control over the Corporate Registered Shareholders to the same extent as over the Individual Registered Shareholder.

### **Exclusive Business Co-operation Agreement**

Huafang Technology and WFOE entered into an exclusive business co-operation agreement on October 18, 2021 (the “Exclusive Business Co-operation Agreement”, which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022 (the “Exclusive Business Co-operation Supplemental Agreement”)), pursuant to which the Consolidated Affiliated Entities agreed to engage WFOE as its exclusive provider of technical support, consultation and other services, including:

- (i) to provide technical support and professional training for the staff of the Consolidated Affiliated Entities;
- (ii) to assist the Consolidated Affiliated Entities in providing consultation, collection and research on the techniques and market information in relation to the principal business of the Consolidated Affiliated Entities (except those market research that wholly foreign-owned enterprise is prohibited from engaging in by the PRC laws (including any laws, regulations, rules, notices, explanations or other binding documents issued by the central or local legislative, administrative or judicial authorities before or after the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement));
- (iii) to provide the Consolidated Affiliated Entities with corporate management consultation;
- (iv) to provide the Consolidated Affiliated Entities with marketing and promotion services;

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- (v) to provide the Consolidated Affiliated Entities with management services in relation to customer orders and customer related services, assist in formulating plan for maintaining the relationship with customers and assist in maintaining such relationship;
- (vi) to provide the Consolidated Affiliated Entities with services in relation to the transfer, lease and disposal of facilities and assets of Huafang Technology;
- (vii) to provide the Consolidated Affiliated Entities with services in relation to the design, installation and daily management, maintenance and update of computer network system, hardware and database;
- (viii) to allow the use by the Consolidated Affiliated Entities of intellectual property rights legally owned by WFOE or persons designated by WFOE;
- (ix) to provide the Consolidated Affiliated Entities with system integration, product development and system maintenance services; and
- (x) to provide other services as required by the Consolidated Affiliated Entities from time to time if permitted by the laws of the PRC.

Pursuant to the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement, the service fee shall be equivalent to the total consolidated profit of the Consolidated Affiliated Entities, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, WFOE shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the Consolidated Affiliated Entities, provided that the adjusted amount shall not exceed the limit as stated above. WFOE shall send the payment notification to Huafang Technology within 40 days after each fiscal year end for the services provided in the preceding fiscal year. The Consolidated Affiliated Entities have agreed to pay the service fee within 30 days after receiving the relevant notice.

In addition, pursuant to the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement, without the prior written approval from WFOE, the Consolidated Affiliated Entities shall not, and shall procure the other Consolidated Affiliated Entities not to, accept the same or any similar services provided by any third party and shall not, establish cooperation relationships similar to that formed by the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement with any third party.

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The Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement also provide that, (1) all proprietary rights and other rights and interests of all intellectual property rights generated, developed or created during the performance of the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement are solely and exclusively owned by WFOE, and (2) WFOE is authorized to use all existing intellectual property rights owned by the Consolidated Affiliated Entities before execution of the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement for free.

Our Directors are of the view that the above arrangement will ensure the economic benefits generated from the operations of the Consolidated Affiliated Entities will flow to WFOE and hence, our Group as a whole.

The Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement shall take effect upon their respective execution dates and shall remain valid unless (1) all the equity interests and/or assets of Huafang Technology have been legally transferred to WFOE or the nominee(s) designated by WFOE; or (2) it is terminated in accordance with the provisions of the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement. Nonetheless, WFOE shall always have the rights to terminate the Exclusive Business Co-operation Agreement and/or the Exclusive Business Co-operation Supplemental Agreement by giving a prior written notice of termination.

### **Exclusive Option Agreement**

WFOE, Huafang Technology and the Registered Shareholders entered into an exclusive option agreement on October 18, 2021 (the “Exclusive Option Agreement” which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022 (the “Exclusive Option Supplemental Agreement”)), pursuant to which the Registered Shareholders and the Consolidated Affiliated Entities jointly and severally granted irrevocably to WFOE the rights to require the Registered Shareholders to transfer any or all their equity interests and/or assets in the Consolidated Affiliated Entities to WFOE and/or its nominee(s), in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. The Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to WFOE and/or its nominee(s) any consideration paid by WFOE and/or its nominee(s) within 10 business days as requested by WFOE. The Registered Shareholders and the Consolidated Affiliated Entities shall not grant exclusive option to any third party.

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Pursuant to the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement, the Registered Shareholders and the Consolidated Affiliated Entities have undertaken to perform certain acts or refrain from performing certain other acts unless they have obtained prior written approval from WFOE, including but not limited to the following matters:

- (i) Huafang Technology shall not in any manner supplement, change or alter its business scope, constitutional documents, increase or decrease its registered capital or change the structure of its registered capital in other manner without the prior written consent of WFOE;
- (ii) Huafang Technology shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards and practices as a going concern;
- (iii) the Consolidated Affiliated Entities shall not sell, transfer, gift, create encumbrances or otherwise dispose of any of its or its subsidiaries' assets, business, legal or beneficial interest of its income or allow any security interest to be created thereon without the prior written consent of WFOE;
- (iv) Huafang Technology shall not terminate or procure its management team to terminate any of the Contractual Arrangements, or enter into any contracts or agreements that conflict with the Contractual Arrangements;
- (v) Huafang Technology and its subsidiaries shall not incur any indebtedness other than those in the ordinary course of business, or having been disclosed to and consented by WFOE in writing;
- (vi) except as demanded by PRC laws, Huafang Technology shall not dissolve or liquidate without the prior written consent of WFOE;
- (vii) Huafang Technology and its subsidiaries shall maintain their normal operation within their principal business scope and shall not alter its principal business or allow any acts or transactions which adversely affects Huafang Technology's business or assets value;
- (viii) Huafang Technology and its subsidiaries shall not enter into any material contracts with a value above RMB0.5 million without the prior written consent of WFOE, except the contracts executed in the ordinary course of business;
- (ix) Huafang Technology and its subsidiaries shall not provide loan or guarantee to any person without the prior written consent of WFOE;
- (x) Huafang Technology and its subsidiaries shall provide its labor, operational and financial information to WFOE or its nominee(s) upon WFOE's request;

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- (xi) Huafang Technology shall not spin-off, merge, enter into joint operation agreements with other entities, acquire or be acquired by other entities; or invest in any entities without the prior written consent of WFOE;
- (xii) Huafang Technology shall immediately inform WFOE if its and its subsidiaries' assets, business or income may be subject to any litigations, arbitrations or administrative proceedings and shall take all necessary actions as reasonably requested by WFOE;
- (xiii) Huafang Technology shall sign all necessary and appropriate documents, take all necessary and proper acts, bring up all necessary and proper requests, or take necessary and proper defenses against claims to maintain Huafang Technology and its subsidiaries' ownership of all their assets;
- (xiv) if the Registered Shareholders or Huafang Technology fail(s) to perform the tax obligations under applicable laws and results in obstacles for WFOE to exercise its exclusive option right, WFOE may request Huafang Technology or the Registered Shareholders to perform the tax obligations or pay the amount equivalent thereto to WFOE;
- (xv) Huafang Technology shall not distribute any bonus, dividend, distributable profits and/or assets and other income derived from the equity interests held by the Registered Shareholders to the Registered Shareholders without the prior written consent of WFOE;
- (xvi) when necessary, Huafang Technology and its subsidiaries shall only purchase insurances from insurers that WFOE recognizes, and the amounts and categorizes of the insurances shall be the same with the companies having similar business and other income derived from the equity interests held by the Relevant Shareholder or assets in the same area; and
- (xvii) WFOE has the right to appoint the director(s) of Huafang Technology.

The Exclusive Option Agreement and/or the Exclusive Option Supplemental Agreement take effect upon their respective execution dates and shall remain valid until (1) it is terminated in writing by all parties, or (2) upon the transfer of the entire equity interests held by the Registered Shareholders and/or the transfer of all the assets of Huafang Technology to WFOE and/or its nominee(s). Nonetheless, WFOE shall always have the rights to terminate the Exclusive Option Agreement and/or the Exclusive Option Supplemental Agreement by giving a prior written notice of termination.

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### Equity Pledge Agreement

WFOE, Huafang Technology and the Registered Shareholders entered into an equity pledge agreement on October 18, 2021 (the "Equity Pledge Agreement") which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022 (the "Equity Pledge Supplemental Agreement"), pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in the Consolidated Affiliated Entities to WFOE as a security interest to guarantee (1) the payment of service fee and interest under the Contractual Arrangements; (2) performance of all other obligations under the Contractual Arrangements; and (3) other payment obligations arising from or in connection with the Contractual Arrangements, including but not limited to liquidated damages, compensations and each expense for the realization of the pledge.

Under the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement, the Registered Shareholders represent and warrant to WFOE including but not limited to the following matters:

- (i) the pledged equity interests can be pledged and transferred legally. Each of the Registered Shareholders is the only legal owner of their respective equity interests and have the authority to pledge all or any part of the equity interests. There is no existing dispute in relation to the ownership of the pledged equity interests;
- (ii) except as agreed in the Contractual Arrangements, there is no other pledge, mortgages or encumbrances in any other forms on the pledged equity interests and WFOE shall enjoy the first priority of security interest in respect of the pledged equity interests;
- (iii) each of the Registered Shareholders shall not transfer all or any part of his/her/its equity interests in Huafang Technology and shall not create or allow any guarantee or other liabilities thereon that may affect the rights and interest of WFOE without its prior written consent;
- (iv) each of the Registered Shareholders shall not create or allow others to create any new encumbrances on the pledged equity interests without the prior written consent of WFOE. Any encumbrances created on all or any part of the pledged equity interests without the prior written consent of WFOE shall be invalid;
- (v) each of the Registered Shareholders shall not perform any acts which may adversely reduce the value of the pledged equity interests or adversely affect the validity of the pledge under the Equity Pledge Agreement and/or the Equity Pledge Supplemental Agreement. The Registered Shareholders shall inform WFOE immediately if such event happens and shall use his/her/its other assets to provide guarantee as reasonably requested and satisfied by WFOE and to take all necessary actions to solve or minimize the adverse effect;

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- (vi) the Registered Shareholders shall comply with and perform the provisions under all laws and regulations in relation to pledge of the equity interests. Upon receiving the notices, orders or suggestions from the relevant authorities in relation to pledge, the Registered Shareholders shall present such notices, orders or suggestions within five working days to WFOE and comply with such notices, orders or suggestions or to raise opposition as reasonably requested or consented by WFOE; and
- (vii) each of the Registered Shareholders has agreed to, and has procured its immediate shareholder(s) (or partner(s)), ultimate shareholder(s) (or de facto controller(s)), directors, successors, agents and property trustees to make all appropriate arrangements and sign all necessary documents to ensure that in case of (i) merge, spin-off, dissolution, liquidation, de-registration, revocation of business license or transfer of equity interests; (ii) change of controlling shareholders or general partner(s) or de facto controllers; (iii) death, incapacity, divorce and or other circumstances that may affect the Registered Shareholders to exercise his/her/its rights; and/or (iv) the occurrence of any circumstances that may affect the Registered Shareholders to exercise his/her/its rights, the successors, liquidators, creditors, transferees, successor, agents or property trustees of the Registered Shareholders shall continue to perform the obligations of the agreement.

The Equity Pledge Agreement and the Equity Pledge Supplemental Agreement take effect upon their respective execution dates and shall remain valid until (i) all the agreements underlying the Contractual Arrangements (other than the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement) have been terminated; (ii) all the obligations under the Contractual Arrangements have been fulfilled or all the secured debts have been repaid; or (iii) each of the Registered Shareholders has transferred his/her/its equity interests in Huafang Technology or Huafang Technology has transferred all of its assets in accordance with the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement. Nonetheless, WFOE shall always have the rights to terminate the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement by giving a prior written notice of termination. The registration of the pledge of equity interests of Huafang Technology as required by the relevant laws and regulations was completed on October 20, 2021 in accordance with the terms of the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement and PRC laws and regulations. The registration of the pledge of equity interests of the operating subsidiaries of Huafang Technology as required by the relevant laws and regulations was completed on September 26, 2022.

### **Shareholders’ Rights Proxy Agreement**

Huafang Technology, the Registered Shareholders and WFOE entered into a shareholders’ rights proxy agreement on October 18, 2021 (the “Shareholders’ Rights Proxy Agreement” which was further amended by a supplemental agreement among WFOE and the Consolidated Affiliated Entities dated September 8, 2022 (the “Shareholders’ Rights Proxy Supplemental



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Agreement”)), pursuant to which, each Registered Shareholders irrevocably appoints WFOE and/or its nominee(s) to exercise such shareholder’s rights in the Consolidated Affiliated Entities, including without limitation to, the rights to:

- (i) propose to convene, participate in and attend the general meetings of the Consolidated Affiliated Entities on behalf of the Registered Shareholders, receive any notices on the convening and proceedings of the general meetings and sign the minutes and resolutions of the meetings, exercise voting rights on all matters that require discussion and resolution of the general meetings (including but not limited to the designation, appointment or replacement of directors, legal representatives, supervisors and senior management of the Consolidated Affiliated Entities), and sign any documents that require signature from the Registered Shareholders and submit any documents for filing purposes to the company registration authority on behalf of the Registered Shareholders;
- (ii) authorize or resolve on the disposal of assets of the Consolidated Affiliated Entities on behalf of the Registered Shareholders;
- (iii) resolve on the dissolution and liquidation of the Consolidated Affiliated Entities on behalf of the Registered Shareholders, and form a liquidation group on behalf of the Registered Shareholders and exercise the authority of the liquidation group during the liquidation period according to law;
- (iv) decide to transfer or otherwise dispose of the equity interests of the Consolidated Affiliated Entities held by the Registered Shareholders and, for the purposes of the foregoing, sign all required documents and perform all required procedures on behalf of the Registered Shareholders; and
- (v) exercise other shareholder’s rights as specified in other applicable PRC laws and regulations and the articles of association of the Consolidated Affiliated Entities (and its amendments from time to time).

Pursuant to the Shareholders’ Rights Proxy Agreement and the Shareholders’ Rights Proxy Supplemental Agreement, Huafang Technology, as the direct and indirect sole shareholder of all operating subsidiaries, irrevocably appoints WFOE and/or its nominee(s) to exercise the voting right and all other shareholder’s rights as specified by PRC laws and regulations and the articles of association in all operating subsidiaries.

The Shareholders’ Rights Proxy Agreement and the Shareholders’ Rights Proxy Supplemental Agreement have an indefinite term and will be terminated in the event that all the equity interests held by the Registered Shareholders or all assets of Huafang Technology have been legally and effectively transferred to WFOE and/or its nominee(s). Nonetheless, WFOE shall always have the rights to terminate the Shareholders’ Rights Proxy Agreement and the Shareholders’ Rights Proxy Supplemental Agreement by giving a prior written notice of termination.

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### **Spousal undertakings**

The spouse of each of the Registered Shareholders, where appropriate, has signed an undertaking to the effect that (1) he/she has unconditionally and irrevocably waived the rights to the respective Registered Shareholders’ rights or interests in the equity interests in Huafang Technology and will not have any claim on such interests; (2) the respective Registered Shareholders has exclusive right to enjoy and perform the rights and obligations under the Contractual Arrangements and does not require the consent of the spouse; and (3) should the spouse acquire the respective Registered Shareholders’ equity interests in Huafang Technology, he/she shall be bound by the Contractual Arrangements, and at the request of WFOE, he/she shall sign documents in the form and substance consistent with 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, any party has the right to submit the relevant dispute to the China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration after 30 days from negotiation notice issued by the other party, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that to the extent permitted by PRC law, the arbitral tribunal may award any temporary or permanent injunctive relief (for instance, the injunctive relief for commencement for business operation or transfer of assets), remedies against the equity interests or assets of Huafang Technology, or order the winding up of Huafang Technology.

However, our PRC Legal Advisor has advised that an arbitral tribunal normally would not grant such kind of injunctive relief or order the winding up of Huafang Technology pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. As a result of the above, in the event that Huafang Technology or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner. See “Risk Factors — Risks Related to Our Corporate Structure” for further details.

### **Conflict of interest**

The Shareholders’ Rights Proxy Agreement and the Shareholders’ Rights Proxy Supplemental Agreement provide that, in order to avoid potential conflicts of interest, where the Registered Shareholders are directors or staff of our Company, the power of attorney shall be granted to other unrelated directors or staff of our Company, and any director or staff of our Company who are Registered Shareholders shall not participate in the decisions in relation to the Contractual Arrangements.

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### **Loss sharing**

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

However, as provided in the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement, without the prior written consent of WFOE, Huafang Technology shall not, among others, (1) sell, transfer, pledge or dispose of in any manner any of its assets or allow any third party create any other security interest on its assets; (2) execute any material contract with a value above RMB0.5 million, except those entered into in the ordinary course of business; (3) provide any loan or guarantees in any form to any third party; (4) incur, inherit, guarantee or assume any debt that is not incurred in the ordinary course of business or not disclosed to and consented by WFOE; (5) enter into any spin-off consolidation or merger with any third party, or acquire or being acquired by any third party; and (6) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and our Company in the event of any loss suffered from the Consolidated Affiliated Entities can be limited to a certain extent.

### **Liquidation**

Pursuant to the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement, in the event of a mandatory liquidation required by the PRC laws, the Registered Shareholders have hereby irrevocably undertaken that, in compliance with the PRC laws, Huafang Technology shall transfer all remaining asset to WFOE or its nominee(s), at the lowest price as permitted by the PRC laws, after deduction of payments of liquidation expenses, staff salaries, social security fee, statutory compensation, and outstanding taxes and settlement of other debts. WFOE or its nominee(s) does not have any payment obligation arising thereon to the extent permitted by the applicable laws of the PRC in force. The Registered Shareholders shall return to WFOE or its nominee(s) any income (if any) received by them arising from such transaction to the extent permitted by then applicable laws of the PRC in force.

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### **Insurance**

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

### **Our confirmation**

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

### **Circumstances under which we will adjust or unwind the Contractual Arrangements**

We will adjust or unwind (as the case maybe) the Contractual Arrangements as soon as practicable in respect of the operation of our business to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority accepts applications for the requisite permit and approval required for our business to be made by sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

### **LEGALITY OF THE CONTRACTUAL ARRANGEMENTS**

Based on the above, our PRC Legal Advisor is of the opinion that:

- (a) as confirmed by the parties to the Contractual Arrangements, each of our WFOE and Huafang Technology has obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements;
- (b) parties to each of the Contractual Arrangements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the Contractual Arrangements is binding on the parties thereto and none of them would violate the provisions of the Civil Code including in particular “impairing other’s legitimate rights and interests with malicious collusion” or fall within any of the circumstances under which a contract may become invalid under the Civil Code of the People’s Republic of China;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our WFOE or Huafang Technology;

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- (d) the execution and performance of the Contractual Arrangements are not required to obtain any approvals or authorizations from the PRC governmental authorities, except that:
  - (i) the exercise of the option by the WFOE of its rights under the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement to acquire all or part of the equity interests and/or assets in Huafang Technology are subject to the approvals of and/or registrations with the PRC regulatory authorities;
  - (ii) any share pledge contemplated under the Equity Pledge Agreement and the Equity Pledge Supplemental Agreement is subject to the registration with local administration bureau for industry and commerce;
  - (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by PRC courts before compulsory enforcement.
- (e) each of the Contractual Arrangements is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidating committee:
  - (i) the Contractual Arrangements provide that any dispute shall be submitted to the CIETAC for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing. They also provide that the arbitrator may award interim remedies over the shares or assets of Huafang Technology, including compensation, injunctive relief (including but not limited to injunctive relief relating to the conduct of business and injunctive relief compelling transfer of assets), enforce the contract or order the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of Huafang Technology) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of Huafang Technology. However, our PRC Legal Advisor has advised that an arbitration tribunal has no power to grant injunctive relief nor will it be able to order the winding up order of companies under PRC laws, and that the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and
  - (ii) the Contractual Arrangements provide that the Registered Shareholders undertake to authorize the WFOEs to appoint a liquidation committee upon the winding up of the Consolidated Affiliated Entities to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC Laws.

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However, on December 24, 2021, the CSRC promulgated New Consultation Drafts for public consultations until January 23, 2022, and according to the CSRC, under the PRC laws and regulations, VIE-structure enterprises that meet the compliance requirements can be listed overseas after filing. However, since the New Consultation Drafts have not taken effect, they are silent on how to define and determine the compliance with the requirements of the VIE-structure. As advised by our PRC Legal Advisor, there are substantial uncertainties regarding the interpretation and application of above current and future PRC laws and regulations over the validity of the Contractual Arrangements. Accordingly, there can be no assurance that the PRC governmental authorities, including but not limited to the CSRC, will not in the future take a view that is contrary to the opinions of our PRC Legal Advisor or impose additional compliance requirements on our contractual arrangements. For more information, please refer to the section headed “Risk Factors — Risks Related to Our Corporate Structure” and “Risk Factors — Risks Related to Doing Business in China — The approval of or filing procedure with the CSRC may be required in connection with the [REDACTED], and, if required, we cannot predict whether we will be able to obtain such approval.” in this document.

Notwithstanding the foregoing, as confirmed in (1) the MCT Consultation, (2) the BMRTB Consultation, and (3) the MIIT Consultation, conducted by our PRC Legal Advisor and the PRC legal advisor of the Joint Sponsors, our Contractual Arrangements would not require their approvals.

Our PRC Legal Advisor is of the view that (1) the MIIT, BMRTB and MCT are the competent regulatory authorities for the Company’s principal business activities and therefore have competent authorities to give the confirmations above; (2) based on these interviews, the adoption of the Contractual Arrangements would not require approvals from the relevant PRC regulatory authorities; and (3) based on these interviews, the adoption of the Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations.

### ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

#### Combination of financial results of our Consolidated Affiliated Entities

Under the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement, it was agreed that, in consideration of the services provided by WFOE, Huafang Technology will pay service fees to WFOE. Subject to the provisions of PRC laws, the services fees are the remaining amount of the after-tax profits of the Consolidated Affiliated Entities after making up the losses in the previous year (if any) and extracting the statutory reserve (if applicable). Without exceeding the agreed limits aforesaid, WFOE has the right to adjust the amount of service fees based on the specific circumstances of its services provided to the Consolidated Affiliated Entities, as well as the operation conditions and development needs of the Consolidated Affiliated Entities. WFOE also has the right to periodically receive or inspect the accounts of Huafang Technology. Accordingly,

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WFOE has the ability, at its sole discretion, to extract all of the economic benefit of Huafang Technology through the Exclusive Business Co-operation Agreement and the Exclusive Business Co-operation Supplemental Agreement.

In addition, under the Exclusive Business Co-operation Agreement, the Exclusive Business Co-operation Supplemental Agreement, and the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of Huafang Technology as WFOE’s prior written consent is required before any distribution can be made. In the event that Huafang Technology distributes any bonus, dividends, distributable profits and/or any assets and other income derived from the equity interests held by the Registered Shareholders without the prior written consent of WFOE, the Registered Shareholders shall notify WFOE within three working days upon obtaining the said interests and pay the relevant interests to WFOE as soon possible in accordance with the terms of the Exclusive Option Agreement and the Exclusive Option Supplemental Agreement.

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

In this regard, our Directors consider that our Company can consolidated the financial results of our Consolidated Affiliated Entities into our Group’s financial information as if they were our Company’s subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 1 to the Accountants’ Report in Appendix I to this document.

## DEVELOPMENT IN LEGISLATION ON FOREIGN INVESTMENT

### **The Foreign Investment Law**

Foreign Investment Law (the “Foreign Investment Law”) was adopted at the 2nd Session of the 13th National People’s Congress of the PRC on March 15, 2019 and came into force from January 1, 2020. On December 26, 2019, the State Council promulgated the Implementation Rules of the Foreign Investment Law of the PRC (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 Foreign Investment Law stipulates the implement of the management systems of pre-establishment national treatment and “negative list” for foreign investment. The “negative list”, which will be issued by, amended or released upon approval by the State Council from time to time, 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 meet the investment conditions stipulated under the “negative list” for any field in the “negative list” which is

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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. The Foreign Investment Law does not contain or quote the stipulation of the “negative list”.

The definition of “foreign investors” in Foreign Investment Law includes foreign natural persons, enterprises and other organizations.

Moreover, the Foreign Investment Law does not stipulate that the “foreign investment” as defined thereunder shall include Contractual Arrangements. Instead, it adds a catch-all provision to the definition of foreign investment so that foreign investment, by its definition, includes “investments through other means stipulated under laws or administrative regulations or provisions prescribed by the State Council” without elaboration on “other means”.

### **Impact and potential consequences of the Foreign Investment Law on our Contractual Arrangements**

Our PRC Legal Advisor is of the view that, provided that no additional laws, administrative regulations, departmental rules or other regulatory documents on contractual arrangements have been issued and enacted, the Foreign Investment Law does not, by itself, have any material adverse operational and financial impact on the legality and validity of the Company’s Contractual Arrangements. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “investments through other means stipulated under laws or administrative regulations or provisions prescribed by the State Council”. Therefore, 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. 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 [REDACTED] of our Shares. See “Risk Factors — Risks Related to Our Corporate Structure” for further details of the risks we face relating to our Contractual Arrangements. Our Company will disclose, as soon as possible, updates of changes to the Foreign Investment Law that will materially and adversely affect our Company as and when occur.

If the operations of our internet cultural business, transmission of Audio-Visual Programs services, and value-added telecommunication services business are not on the “negative list” and we can legally operate such business under PRC laws, the WFOE will exercise the call option under the Exclusive Option Agreements and the Exclusive Option Supplemental Agreement to acquire the equity interest of our Consolidated Affiliated Entities and unwind the Contractual Arrangements subject to re-approval by the relevant authorities.



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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:

- (i) 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;
- (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 and compliance with the Contractual Arrangements in our annual reports; and
- (iv) our Company will engage external legal advisers 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 our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.