
CONTRACTUAL ARRANGEMENTS

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (《外商投資准入特別管理措施(負面清單)》) (the “**Negative List**”) and the Encouraged Industry Catalogue for Foreign Investment (《鼓勵外商投資產業目錄》) (the “**Encouraged Catalogue**”), which were promulgated and are amended from time to time jointly by the Ministry of Commerce and the NDRC. The Negative List and the Encouraged Catalogue divide industries into three categories in terms of foreign investment, namely, “encouraged”, “restricted” and “prohibited.” Industries not listed under the Negative List and the Encouraged Catalogue are generally deemed as falling into a fourth category “permitted.” The currently effective Negative List is the 2021 Negative List (i.e. Special Administrative Measures for Foreign Investment Access (Negative List 2021) (《外商投資准入特別管理措施(負面清單)(2021年版)》), which became effective on January 1, 2022. See “Regulations – Regulations Related to Foreign Investment” for details.

With a view to complying with the requirements under the Listing Decision LD43-3 to the extent practicable, we underwent reorganization of the holding structure of our onshore subsidiaries and Consolidated Affiliated Entities in preparation for the [REDACTED]. Please refer to “History, Development and Corporate Structure – Restructuring of Our Contractual Arrangements” for further details.

As advised by our PRC Legal Adviser, a summary of our businesses/operations that are subject to foreign investment restriction in accordance with the 2021 Negative List and other applicable PRC laws (the “**Restricted Business**”) is set out below:

Category	Our business/operations
Value-added telecommunication services	Foreign investment is generally not permitted in the types of value-added telecommunications business that do not fall within China’s commitment to the WTO to open up, which include the internet data center services, internet access services, domestic internet protocol virtual private network services and content delivery network services, except that qualified telecommunication service providers incorporated in Hong Kong or Macau may hold up to 50% equity interest in such entities according to the Mainland and Hong Kong Closer Economic Partnership Agreement or the Mainland and Macao Closer Economic Partnership Agreement, respectively.

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Category

Our business/operations

As for the value-added telecommunications business falling within China’s commitment to the WTO to open up, according to the 2021 Negative List, the foreign equity interests ownership of entities that engage in value-added telecommunications business (except for e-commerce, domestic multi-party communication, storage and forwarding and call center) must not exceed 50%.

The principal business of Kingsoft Cloud Information and seven other Consolidated Affiliated Entities¹ involves provision of a wide range of cloud solutions comprising, among other things, value-added telecommunication services including, without limitation, cloud computing and internet of things (IoT) technologies to governmental bureaus, state-owned telecommunications services providers, their respective contractors and other public sector customers, requiring telecommunication business operation license (the “**VAT License(s)**”). These entities currently hold or are in the process of applying for VAT Licenses (the “**Licensed Entities**”). Zhuhai Kingsoft Cloud is the investment holding company of Beijing Kingsoft Cloud Technology that holds VAT Licenses and holds the equity interest of three (3) Licensed Entities and six (6) Project Entities (defined below). As the Group gradually expands its business in cloud services provision, the Company is expected to procure Zhuhai Kingsoft Cloud applying for relevant prohibited licenses and/or restrictive licenses.

The Group is currently engaged by certain public sector customers, who are government units or state-owned enterprise, or their respective contractors under government directives (the “**Public Project Customers**”), for local “smart city” projects to enhance productivity and efficiency of telecommunication infrastructure of local counties, cities and/or provinces, through the incorporation of, among others, cloud computing and internet of things (IoT) technologies with on-premise deployment on local infrastructure (the “**Smart City Projects**”). The Public Project Customers of the Smart City Projects from time to time source from the Group certain services (e.g., equipment supply, project management and maintenance services)

¹ These entities include: Kingsoft Cloud Network, Nanjing Qianyi, Kingsoft Cloud Tianjin, Shanghai Jinxun Ruibo, Beijing Jinxun Ruibo, Wuhan Kingsoft Cloud and Kingsoft Cloud (Shenzhen) Edge Computing Technology Co., Ltd. (金山雲(深圳)邊緣計算科技有限公司) (formerly known as Shenzhen Yunfan Jiasu Technology Co., Ltd. (深圳市雲帆加速科技有限公司)) (“**Shenzhen Yunfan**”).

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ancillary to the cloud services (the “**Project and Ancillary Services**” or “**Unrestricted Business**”, together with the Restricted Business, the “**Relevant Businesses**”) to be provided by the Consolidated Affiliated Entities as set out below (the “**Project Entities**”).

While the provision of Project and Ancillary Services do not require VAT Licenses, the Project Entities are included in the Contractual Arrangements as such services are inseparable from the supply of cloud services, which are subject to foreign investment restriction, given that the Project and Ancillary Services involve certain public data such that the Public Project Customers considered not suitable for involving entities with foreign ownership. As confirmed by the Public Project Customers, the Project and Ancillary Services must be provided by PRC domestic companies incorporated in local administrative district without foreign investment, either by (i) wholly owned subsidiary(ies) of the Licensed Entities holding the relevant VAT License, or (ii) a joint venture that is majority owned by such Licensed Entities directly or indirectly and minority owned by local partners designated by the Public Project Customers (the “**Engagement Conditions**”). To the best of the knowledge of the Directors, such conditions of engagement are widely common across public sector engagements. It is likely that the Group will no longer be able to (a) maintain the business relationship with the Public Project Customers and/or (b) enter into new business contracts with the Public Project Customers if the Project Entities were transferred out of the Contractual Arrangement, which will be highly detrimental to the Group’s business operations.

The revenue contribution of the Project Entities for the year ended December 31, 2021 accounted for less than 5% of those of the Group, while the assets contribution of the Project Entities as at December 31, 2021 also accounted for less than 5% of those of the Group.

In order to adhere to the “narrowly tailored” principle under HKEX-LD43-3 to the extent practicable, the Company has undertaken to the Stock Exchange that, it will implement adequate safeguards and internal review procedures to (i) undertake new projects with new or existing Public Project Customers on terms that will enable the Group to provide the Project and Ancillary Services through WFOEs of the Group unless there are Engagement Conditions imposed by the Public Project Customers, and (ii) ensure that the Project and Ancillary Services that may be provided to new or existing Public Project Customers by entities within the Contractual Arrangements will not be material to the Group in terms of assets and revenue contribution after the Proposed [REDACTED] and in any event not exceeding 5% of the Group in annual revenue and total asset on an ongoing basis after the [REDACTED].

Taking into account the inseparable nature of the Project and Ancillary Services and the material adverse impact from transferring the Project Entities out of the Contractual Arrangements, the immateriality of the Unrestricted Business conducted by the Project Entities, and the undertaking mentioned above, we are of the view that Contractual Arrangements for the Project Entities are narrowly tailored.

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Requirements under the FITE Regulations

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》), which were most recently amended and took effect from May 1, 2022 (the “**2022 FITE Regulations**”). The 2022 FITE Regulations removed the qualification requirement on the primary foreign investor in a foreign invested value-added telecommunications enterprise for having a good track record and operational experience in the value-added telecommunications industry as stipulated in the previous version (the “**Qualification Requirements**”). The 2022 FITE Regulations were newly amended and currently lack clear, specific and updated guidance thereunder for foreign-invested enterprises to apply for the value-added telecommunication business operation license. It remains uncertain whether the PRC government authorities will further issue detailed implementation rules for the 2022 FITE Regulations and impose additional requirements for foreign investors that invest in a company providing value-added telecommunication services in China in practice.

In March 2022, the respective PRC legal advisers of the Company and the Joint Sponsors conducted a verbal consultation with Beijing Communications Administration, during which the officer of Beijing Communications Administration confirmed that, as of the date of this interview, (i) none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements and that whether the Qualification Requirements can be met is subject to a substantive examination and discretion by the MIIT on a case-by-case basis, (ii) the applications for VAT Licenses by a sino-foreign equity joint venture or wholly-owned foreign investment entity invested by our Company or other overseas group entities will be unlikely to be approved under the circumstances as of the date of this interview due to our lack of the relevant experience to satisfy the Qualification Requirements under the applicable PRC laws, regulations and rules. Our PRC Legal Adviser has confirmed that the authority being interviewed and consulted is the competent regulatory authority to provide such confirmation.

Narrowly Tailored Contractual Arrangements

In light of the above, we believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and to enable the Group to combine the financial results of our Consolidated Affiliated Entities which are engaged in the operation of the Relevant Businesses.

We will make periodic inquiries with relevant PRC authorities to understand any new regulatory development and will unwind and terminate the Contractual Arrangements wholly or partially once our businesses are no longer restricted from foreign investment to the extent permissible under PRC Laws.

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OUR CONTRACTUAL ARRANGEMENTS

Overview

The Consolidated Affiliated Entities were established under the PRC laws. As described above, investment in certain areas of the industries in which we currently operate and may operate are subject to restrictions under current PRC laws and regulations. After consultation with our PRC Legal Adviser, we determined that it was not viable for our Company to hold the Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in the PRC for industries subject to foreign investment restrictions, we would gain effective control over, and receive substantially all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

In order to comply with the relevant PRC laws and regulations described above, while availing ourselves of international capital markets and maintaining effective control over all of our operations, our Company gained control over (i) Kingsoft Cloud Information and its subsidiaries by entering into a series of contractual arrangements through Beijing Yunxiang Zhisheng with Kingsoft Cloud Information and its registered shareholders; and (ii) Zhuhai Kingsoft Cloud and its subsidiaries by entering into a series of contractual arrangements through Beijing Kingsoft Cloud with Zhuhai Kingsoft Cloud and its registered shareholders. The Contractual Arrangements currently in effect were amended and restated, whereby the Company acquired effective control over the financial and operational policies of the Consolidated Affiliated Entities and have become entitled to substantially all the economic benefits derived from their operations. As a result, we do not directly own any controlling stake in our Consolidated Affiliated Entities.

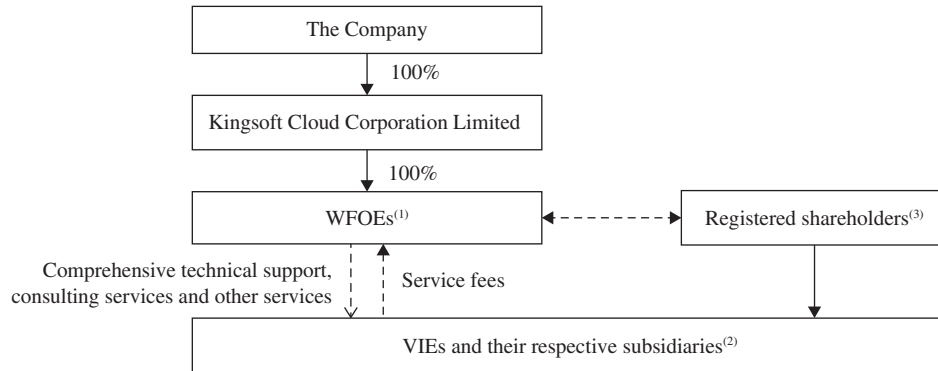
Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOEs and our Consolidated Affiliated Entities on arm’s length basis; (ii) by entering into the exclusive consultation and technical service agreements with the WFOEs, being subsidiaries of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after [REDACTED]; and (iii) a number of other companies in the same or similar industries in which we operate use similar arrangements to accomplish the same purpose. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits from our Consolidated Affiliated Entities, have been narrowly tailored to achieve our business purpose and minimize the potential for conflict with relevant PRC laws and regulations to the maximum extent.

The revenue contribution of the Consolidated Affiliated Entities to our Group, taking into account all of their businesses with or without foreign investment restrictions under PRC laws, amounted to RMB3,882.4 million, RMB6,377.2 million, RMB7,972.1 million, RMB1,453.0 million, representing approximately 98.1%, 97.0%, 88.0% and 66.8% of the total revenue of our Group for the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively.

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Contractual Arrangements

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



Notes:

- (1) The WFOEs refer to Beijing Kingsoft Cloud and Yunxiang Zhisheng.
- (2) The VIEs refer to Zhuhai Kingsoft Cloud and Kingsoft Cloud Information. Each of Nanjing Qianyi, Kingsoft Cloud Tianjin and Shanghai Jinxun Ruibo is a subsidiary of Kingsoft Cloud Network, which is wholly owned by Zhuhai Kingsoft Cloud. Each of Chibi Kingsoft Cloud Network Technology Co., Ltd.* (赤壁金山雲網絡技術有限公司), one of the Project Entities, and Shenzhen Yunfan is a subsidiary of Wuhan Kingsoft Cloud, which is indirectly wholly owned by Kingsoft Cloud Information through Beijing Jinxun Ruibo. Each of the remaining Project Entities, including Rizhao Kingsoft Cloud Network Technology Co., Ltd.* (日照金山雲網絡技術有限公司), Kingsoft Cloud Network Technology (Jiangsu) Co., Ltd.* (金山雲網絡技術(江蘇)有限公司), Kingsoft Cloud (Qingyang) Data Information Technology Co., Ltd.* (金山雲(慶陽)數據信息科技有限公司), Kingsoft Cloud Intelligent City Technology (Guizhou) Co., Ltd.* (金山雲智慧城市科技(貴州)有限公司) and Kingsoft Cloud Perception City Technology (Anhui) Co., Ltd.* (金山雲感知城市科技(安徽)有限公司) and its subsidiary Changjiang Digital Technology (Anhui) Co., Ltd.* (長江數字科技(安徽)有限公司), is a subsidiary of Kingsoft Cloud Network, which is wholly owned by Zhuhai Kingsoft Cloud.
- (3) Zhuhai Kingsoft Cloud is held as to 79.60% and 20.40% by Beijing Digital Entertainment* (北京金山數字娛樂科技有限公司) and Ms. Qiu Weiqin, respectively, as registered shareholders. Kingsoft Cloud Information is held as to 80% and 20% by Ms. Qiu Weiqin and Mr. Wang Yulin, our executive Director and Chief Executive Officer, respectively, as registered shareholders.
- (4) “————▶” denotes direct legal and beneficial ownership in the equity interest.
- (5) “-----▶” denotes contractual relationship.
- (6) “◀-----▶” denotes the control by WFOEs over the registered shareholders and our Consolidated Affiliated Entities through (i) powers of attorney to exercise all shareholders’ rights in the Consolidated Affiliated Entities; (ii) exclusive call options to acquire all or part of the equity interests and/or assets in the Consolidated Affiliated Entities; and (iii) equity interest pledges over the equity interests in the Consolidated Affiliated Entities.

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Circumstances under which we will unwind the Contractual Arrangements

We will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority grants relevant value-added telecommunication business operation license to Sino-foreign equity joint ventures or wholly-owned foreign investment entities in practice under relevant PRC laws and regulations.

Summary of the material terms of the Contractual Arrangements

Exclusive Consultation and Technical Service Agreement

Under the exclusive consultation and technical service agreement dated November 9, 2012, as amended and supplemented on November 29, 2019, Beijing Kingsoft Cloud has agreed to exclusively provide the following services (among others) to Zhuhai Kingsoft Cloud:

- the licensing of software, copyrights and know-how legally owned by Beijing Kingsoft Cloud;
- the provision of comprehensive consultancy services related to business operation, management and technology;
- the development, maintenance and updates of hardware and database;
- the development of application software and related operational support and updates;
- the provision of technical training for employees;
- the collection and research of technical information; and
- the provision of other related services as required by Zhuhai Kingsoft Cloud from time to time.

Zhuhai Kingsoft Cloud has agreed to annually pay service fees equal to 100% of its revenues for the year deducting costs in the same period as agreed by both parties, and pay service fees for certain services as required by Zhuhai Kingsoft Cloud from time to time. The service fees are adjustable at the sole discretion of Beijing Kingsoft Cloud. The exclusive consultation and technical service agreement shall remain effective for 20 years from November 9, 2012 unless expressly provided otherwise or Beijing Kingsoft Cloud unilaterally decides to terminate the exclusive consultation and technical service agreement. Beijing Kingsoft Cloud can unilaterally renew this agreement for a further period determined by itself.

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On July 18, 2018, Kingsoft Cloud Information and Yunxiang Zhisheng entered into an exclusive consultation and technical service agreement, which was later amended and supplemented on November 29, 2019 and July 15, 2022 and contains terms substantially similar to the exclusive consultation and technical service agreement described above.

Loan Agreements

On November 9, 2012 and June 20, 2014, Ms. Qiu Weiqin and Beijing Kingsoft Cloud entered into loan agreements, as amended and supplemented on November 29, 2019 and July 15, 2022, under which Beijing Kingsoft Cloud agreed to provide Ms. Qiu Weiqin interest-free loans. Under these loan agreements, the loans shall be repaid by transferring Ms. Qiu Weiqin’s equity interest in Zhuhai Kingsoft Cloud to Beijing Kingsoft Cloud or its designee.

On July 18, 2018, Mr. Wang Yulin and Ms. Qiu Weiqin entered into a loan agreement with Yunxiang Zhisheng, under which Yunxiang Zhisheng agreed to provide Mr. Wang Yulin and Ms. Qiu Weiqin an interest-free loan. This agreement was later amended and supplemented on November 29, 2019 and July 15, 2022, and contains terms substantially similar to the loan agreements described above.

Equity Pledge Agreement

Each of Ms. Qiu Weiqin and Beijing Digital Entertainment, the shareholders of Zhuhai Kingsoft Cloud, has entered into an equity pledge agreement with Beijing Kingsoft Cloud and Zhuhai Kingsoft Cloud on June 20, 2014, which was later amended and supplemented on July 15, 2022. Under the equity pledge agreement, Ms. Qiu Weiqin and Kingsoft Digital pledged their respective equity interest in Zhuhai Kingsoft Cloud to Beijing Kingsoft Cloud to secure obligations under the applicable loan agreements, exclusive purchase option agreement, shareholder voting right trust agreement, and exclusive consultation and technical service agreement. Ms. Qiu Weiqin and Kingsoft Digital further agreed not to transfer or pledge their equity interest in Zhuhai Kingsoft Cloud without the prior written consent of Beijing Kingsoft Cloud. The equity pledge agreement will remain binding until the pledgers, Ms. Qiu Weiqin and Kingsoft Digital, as the case may be, discharge all of their obligations under the above-mentioned agreements. As of the date of this Document, the equity pledges under the equity pledge agreement have been registered with the competent PRC regulatory authority.

On July 18, 2018, Mr. Wang Yulin and Ms. Qiu Weiqin entered into an equity pledge agreement with Yunxiang Zhisheng and Kingsoft Cloud Information, which was amended and supplemented on July 15, 2022, and contains terms substantially similar to the equity pledge agreement described above. As of the date of this Document, the equity pledges under the equity pledge agreement dated July 18, 2018 have been registered with the competent PRC regulatory authority.

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Exclusive Purchase Option Agreement

Ms. Qiu Weiqin and Kingsoft Digital, the shareholders of Zhuhai Kingsoft Cloud, entered into an exclusive purchase option agreement with Beijing Kingsoft Cloud and Zhuhai Kingsoft Cloud on June 20, 2014, which was later amended and supplemented on November 29, 2019 and July 15, 2022. Under the exclusive purchase option agreement, Ms. Qiu Weiqin granted Beijing Kingsoft Cloud or its designee an option to purchase her equity interest in Zhuhai Kingsoft Cloud at a price equal to the higher of the amount of the loan provided to Ms. Qiu Weiqin, and the minimum amount of consideration permitted by PRC law, and Kingsoft Digital granted Beijing Kingsoft Cloud or its designee an option to purchase its equity interest in Zhuhai Kingsoft Cloud at a price equal to the higher of RMB1 and the minimum amount of consideration permitted by PRC law. Ms. Qiu Weiqin and Kingsoft Digital also granted Beijing Kingsoft Cloud or its designee an option to purchase all or a portion of the assets of Zhuhai Kingsoft Cloud for the minimum amount of consideration permitted by PRC law. Ms. Qiu Weiqin and Kingsoft Digital also agreed not to transfer or mortgage any equity interest in or dispose of or cause the management to dispose of any material assets of Zhuhai Kingsoft Cloud without the prior written consent of Beijing Kingsoft Cloud. The exclusive purchase option agreement shall remain in effect until all of the equity interests in Zhuhai Kingsoft Cloud have been acquired by Beijing Kingsoft Cloud or its designee.

On July 18, 2018, Mr. Wang Yulin and Ms. Qiu Weiqin entered into an exclusive purchase option agreement with Yunxiang Zhisheng and Kingsoft Cloud Information, which was later amended and supplemented on November 29, 2019 and July 15, 2022, and contains terms substantially similar to the exclusive purchase option agreement described above.

Shareholder Voting Right Trust Agreement

Ms. Qiu Weiqin and Kingsoft Digital, the shareholders of Zhuhai Kingsoft Cloud, entered into a shareholder voting right trust agreement with Beijing Kingsoft Cloud and Zhuhai Kingsoft Cloud on June 20, 2014, which was later amended and supplemented on November 29, 2019 and July 15, 2022. Under the shareholder voting right trust agreement, Ms. Qiu Weiqin and Kingsoft Digital agreed to irrevocably entrust a person designated by Beijing Kingsoft Cloud to represent them to exercise all the voting rights and other shareholders' rights to which they are entitled as shareholders of Zhuhai Kingsoft Cloud. The shareholder voting right trust agreement shall remain effective from the date of such agreement for as long as Ms. Qiu Weiqin and Kingsoft Digital remain the shareholders of Zhuhai Kingsoft Cloud, unless Beijing Kingsoft Cloud otherwise decides to terminate or amend this agreement.

On July 18, 2018, Mr. Wang Yulin and Ms. Qiu Weiqin entered into a shareholder voting right trust agreement with Yunxiang Zhisheng and Kingsoft Cloud Information, which was later amended and supplemented on November 29, 2019 and July 15, 2022, and contains terms substantially similar to the shareholder voting right trust agreement described above.

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Spousal Consents

The spouses of individual shareholders of Zhuhai Kingsoft Cloud and Kingsoft Cloud Information have each signed a spousal consent letter. Under the spousal consent letter, the signing spouse unconditionally and irrevocably agreed that the equity interest in Zhuhai Kingsoft Cloud or Kingsoft Cloud Information which is held by and registered under the name of his or her spouse will be disposed of pursuant to the above-mentioned loan agreements, equity pledge agreements, exclusive purchase option agreements and the shareholder voting rights trust agreements. Moreover, the spouse confirmed he or she has no rights, and will not assert in the future any right, over the equity interests in Zhuhai Kingsoft Cloud or Kingsoft Cloud Information held by his or her spouse. In addition, in the event that the spouse obtains any equity interest in Zhuhai Kingsoft Cloud or Kingsoft Cloud Information held by his or her spouse for any reason, he or she agrees to be bound by and sign any legal documents substantially similar to the contractual arrangements entered into by his or her spouse, as may be amended from time to time.

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 with respect to the construction and performance of these agreements, either party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with its arbitration rules. The arbitration shall be conducted in Beijing. The arbitration award shall be final and binding on the parties. Subject to the provisions of the PRC laws, the arbitrator may impose restrictions on and/or dispose of our Consolidated Affiliated Entities' equity interests or land and other assets (such as for award of remedies), grant injunction (such as for the conduct of business or compelling the transfer of assets), or grant other interim relief, or order winding up of our Consolidated Affiliated Entities through arbitration. Subject to the provisions of the PRC laws, pending the formation of the arbitration tribunal or in appropriate cases, the courts with jurisdiction (including the courts in Hong Kong, the place of incorporation of the Company, the place of incorporation of the Consolidated Affiliated Entities, and the place where the principal assets of the WFOE or our Consolidated Affiliated Entities is located) shall have the right to grant interim relief in support of the arbitration. After the arbitration award takes effect, any party shall have the right to apply to the said courts with jurisdiction for enforcement of the arbitration award.

However, our PRC Legal Adviser has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal would not to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

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

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Registered Shareholders. Under the Civil Code of the PRC (《中華人民共和國民法典》), for individual Registered Shareholders, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, the WFOE can enforce its rights against the successors. Pursuant to the Contractual Arrangements, the relevant agreements shall be binding on and shall inure to the interest of the respective successors of the Registered Shareholder. Where there are circumstances that may affect the Registered Shareholders’ exercise of their rights as a shareholder of our Consolidated Affiliated Entity (including but not limited to death, incapacity, marriage, divorce, bankruptcy), any successors of the Registered Shareholder shall cooperate with other parties to make all arrangements deemed necessary so that the performance of the agreements will not be hindered.

Pursuant to the Powers of Attorney, the registered shareholders undertook that, in the event of death, incapacity, marriage, divorce, bankruptcy or other circumstances that may affect the Registered Shareholders’ exercise of shareholding in our Consolidated Affiliated Entity, the registered shareholders will ensure that their heirs or transferees of shareholdings in our Consolidated Affiliated Entity will issue the same power of attorney as the Power Attorney before he/she can inherit/undertake all the Registered Shareholders’ rights and obligations under the Power of Attorney.

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company and the WFOE is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entity. Further, our Consolidated Affiliated Entity is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Despite the foregoing, the WFOE may provide to or assist our Consolidated Affiliated Entity in obtaining financial support when deemed necessary to ensure that our Consolidated Affiliated Entity meets the requirement of cash flow in daily operation and/or offset any losses incurred in the process of its operation. In addition, given that our Group conducts a portion of its business operations in the PRC through our Consolidated Affiliated Entity, which hold the requisite the PRC operational licenses and approvals, and that its 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

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operations would be adversely affected if our Consolidated Affiliated Entity suffer losses. However, as provided in the Exclusive Purchase Option Agreements, without the prior written consent of the WFOE, our Consolidated Affiliated Entity shall not, among others: (i) sell, transfer, mortgage, or dispose of legal or beneficial interest in any material assets, business or revenues of our Consolidated Affiliated Entity except for those conducted in the ordinary course of business; (ii) provide any person with any loans, incur any borrowings, provide guarantees or any other forms of security, or undertake any material obligations outside of normal business activities; (iii) merge, consolidate with, acquire, or invest in any person; (iv) declare or distribute any dividends to its shareholders; (v) enter into or terminate any material contract or conclude any other agreement in conflict with any existing material contracts, except for those entered into during the ordinary course of business. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and our Company in the event of any loss suffered from our Consolidated Affiliated Entity can be limited to a certain extent.

Liquidation

Pursuant to the Equity Pledge Agreements, in the event that our Consolidated Affiliated Entity is required by PRC law or upon the written consent by the WFOE to be liquidated or dissolved, any interest distributed to the registered shareholders upon our Consolidated Affiliated Entity's dissolution or liquidation shall, upon the request of the WFOE, be (i) deposited into an account designated and supervised by the WFOE and used to secure the obligations and pay the secured indebtedness under the Contractual Arrangements prior and in preference to make any other payment; or (ii) unconditionally donated to the WFOE or any other person designated by the WFOE to the extent permitted under applicable PRC laws.

Insurance

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

Our confirmation

Our Directors confirm that, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entity under the Contractual Arrangements.

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LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

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

- (i) each of the WFOEs and our VIEs is a duly incorporated and validly existing company and their respective establishment is valid, effective and complies with the relevant PRC laws;
- (ii) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder;
- (iii) the Contractual Arrangements would not fall within the circumstances as stipulated in the PRC Civil Code which will lead the arrangements as invalid act under the PRC Civil Code;
- (iv) none of the agreement under the Contractual Arrangements violates any provisions of the respective articles of association of our VIEs or our WFOEs;
- (v) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that:
 - (a) the exercise of the option by our WFOEs of its rights under the exclusive purchase option agreements to acquire all or part of the equity interests in our VIEs is subject to the approvals of and/or registrations with the PRC regulatory authorities;
 - (b) the equity pledges contemplated under the equity pledge agreements are subject to the registration with the relevant local branch of SAMR;
 - (c) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by the PRC courts before compulsory enforcement; and
- (vi) Each of the agreements under the Contractual Arrangements is valid, legal and binding under the PRC laws, except that the Contractual Arrangements provide that the arbitral body may award interim remedies over the shares and/or assets of our VIEs, injunctive relief (e.g., for the conduct of business or to compel the transfer of assets) and/or order the winding up of our VIEs, and that courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and the PRC (being the place of incorporation of our VIEs) also have jurisdiction for the grant and/or enforcement of arbitral award and interim remedies against the shares and/or assets of our VIEs, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in our VIEs in case of disputes. 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 China.

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Our PRC Legal Adviser also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations and accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion.

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

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Our Directors consider that the Company can consolidate the financial results of our Consolidated Affiliated Entities into the Group’s financial information as if they were the Company’s subsidiaries. Our Reporting Accountant, [has issued] an unqualified opinion on the Group’s consolidated financial information as of and for the three years ended December 31, 2019, 2020 and 2021 as included in the Accountants’ Report set out in Appendix IA and the Group’s unaudited interim condensed consolidated financial information as of and for the three months ended March 31, 2022 as included in the report set out in Appendix IB.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

The Group has adopted the following measures to ensure the effective operation of the 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 inquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- (ii) the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) the Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports after the [REDACTED];
- (iv) the 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 the WFOEs and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements;
- (v) since the Contractual Arrangements will constitute continuing connected transactions of our Group following the completion of the [REDACTED], our Company has applied to the Stock Exchange, and the Stock Exchange [has granted] a waiver, details of which are set out in the section headed “Connected Transactions”. Our Company will comply with the conditions prescribed by the Stock Exchange under the waiver given; and

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- (vi) our Group will adjust or unwind (as the case may be) the Contractual Arrangements as soon as practicable to hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority grants the relevant value-added telecommunication business operation license to Sino-foreign equity joint ventures or wholly-owned foreign investment entities in practice under relevant PRC laws and regulations.

DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Regulations on the Implementation of the Foreign Investment Law, which came into effect on January 1, 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Ventures Enterprise Law and the Wholly Foreign-Invested Enterprises Law to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including the Group. We use the Contractual Arrangements to establish control of our Consolidated Affiliated Entities, by the WFOEs, through which we operate the Relevant Business in the PRC. As advised by our PRC Legal Adviser, the Foreign Investment Law, as it is interpreted and implemented as of the date of this Document, does not have a material adverse impact on our Contractual Arrangements, including their legality and validity, for which, see “Contractual Arrangements – Legality of the Contractual Arrangements.”

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods.” There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard 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 our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See “Risk Factors – Risks Relating to Our Corporate Structure and the Contractual Arrangements.”