

CONTRACTUAL ARRANGEMENTS

BACKGROUND

Certain businesses currently operated or will be operated by us in the PRC are subject to foreign investment restrictions and license requirements (the “**Relevant Businesses**”). We operate Relevant Businesses through our Onshore Holdco (Calorie Technology) and its subsidiaries. We do not directly own equity interest in Onshore Holdco, which is held by the Registered Shareholders.

The agreements underlying the Contractual Arrangements provide a mechanism through which: (a) economic benefits of Onshore Holdco are able to be transferred to us through the Consulting and Services Agreement and the Business Cooperation Agreement (each defined below); and (b) we are able to control Onshore Holdco through the Option Agreement, the Share Pledge Agreements, and the Powers of Attorneys (each defined below). Pursuant to this arrangement, all substantial and material business decisions of Onshore Holdco (and its subsidiaries) will be instructed and supervised by our Group, through our WFOE (Beijing Calorie Information Technology Co., Ltd.), and all risks arising from Onshore Holdco’s (and its subsidiaries’) business are also effectively borne by our Group as a result of the Consolidated Affiliated Entities being treated as our controlled subsidiaries; accordingly, we are entitled to economic benefits generated by the Consolidated Affiliated Entities business through the Contractual Arrangements.

During each of the financial years ended December 31, 2020, 2021 and 2022, the revenue contribution of the Consolidated Affiliated Entities to our Group accounted for approximately 98.0%, 99.6% and 40.7%, respectively. The decrease in revenue contribution between 2021 and 2022 is the result of moving business operations from our Consolidated Affiliated Entities to other subsidiaries in the Group (those in which we directly hold equity interest) in order to narrowly tailor our Contractual Arrangements. Substantially all of the revenue generated from the Relevant Businesses are recorded under the Group’s “membership and online paid content” reportable segment.

PRC LAWS RELATING TO FOREIGN INVESTMENT RESTRICTIONS

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for Foreign Investment Market Access (2021 Version) (外商投資准入特別管理措施 (負面清單) (2021 年版)) and the Catalog of Industries for Encouraging Foreign Investment (2020 Version) (鼓勵外商投資產業目錄(2020年版)) (collectively, the “**Investment Restrictions**”), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Investment Restrictions sets out a list of industries in which foreign investment is restricted or prohibited.

A summary of our businesses that are subject to foreign investment restriction or prohibition are set out below:

Prohibited Business *Transmission of audio-visual programs*

Each of our recorded fitness video courses and live streaming business constitutes “internet audio-visual program services” (網絡視聽節目服務), which requires an Audio-Visual License or registration on the “National Internet Audio-Visual Platforms Information Management System” (全國網絡視聽平台信息登記管理系統). According to the Investment Restrictions 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. As of the Latest Practicable Date, our *Keep* app, operated by Onshore Holdco, has been registered in the National Internet Audio-visual Platforms Information Management System (全國網絡視聽平台信息登記管理系統).

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Internet culture business

Our recorded fitness video courses and live-streaming business and *Keeper* community classify as commercial internet cultural activities, which require an internet cultural business license (網絡文化經營許可證). As of the Latest Practicable Date, Onshore Holdco holds an internet cultural business license for commercial internet cultural activities issued by the Beijing Municipal Bureau of Culture and Tourism. According to the Investment Restrictions and other applicable PRC Laws, foreign investors are prohibited from holding equity interest in an enterprise carrying out internet cultural business (except for music).

Radio and television program production

Our recorded fitness video courses fall within the scope of “radio and television program production and operation business” (廣播電視節目製作經營業務), which requires a radio and television production operation license (廣播電視節目製作經營許可證). As of the Latest Practicable Date, Onshore Holdco holds a radio and television production operation license for production and operation of radio and television programs issued by the Beijing Municipal Radio and Television Bureau. According to the Investment Restrictions and other applicable PRC Laws, foreign investors are prohibited from holding equity interest in an enterprise engaging in radio and television program production and operation business.

Based on the above, the PRC Legal Adviser is of the view that the Group’s recorded fitness video courses, live streaming business and *Keeper* community fall within the scope of the prohibited business category under the Investment Restrictions.

Restricted Business

Value-added telecommunication services

Operation of the *Keep* app is a restricted business.

Additionally, each of our recorded fitness video courses, live-streaming business, our membership subscriptions and *Keeper* community, which are operated on the *Keep* app, constitutes, or shall constitute in the future, value-added telecommunications (“VAT”) services, which requires an ICP License. As of the Latest Practicable Date, Onshore Holdco holds an ICP License for the operation of its VAT business.

On March 29, 2022, the State Council promulgated the Decision of the State Council on Revising and Repealing Certain Administrative Regulations (《國務院關於修改和廢止部分行政法規的決定》), which amended the then-FITE Regulations with the amendments taking effect on May 1, 2022 (the “**New FITE Regulations**”). Under the New FITE Regulations, foreign investors are permitted to hold up to 50% (but not more) equity interest in entities requiring an ICP License to operate, provided that the foreign investor first satisfies qualification requirements, including registered capital and other requirements or proof required under the new FITE Regulations (“**VAT Qualification Requirements**”). However, the New FITE Regulations removed the requirements that the foreign-investor would need to have a good track record

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and experience in operating VAT businesses overseas. Additionally, the New FITE Regulations do not further elaborate on the proof, record or documentation required to constitute the necessary proof for satisfying the VAT Qualification Requirements. As of the Latest Practicable Date, no applicable PRC laws had provided clear guidance or interpretation on the VAT Qualification Requirements, there are uncertainties as to whether the overseas entities within our Group (including its shareholders or other overseas subsidiaries) will meet the VAT Qualification Requirements by virtue of their investment experience in the VAT business, and thereby be able to hold not more than 50% of the equity interest in the Consolidated Affiliated Entities.

As noted above, the operation of our online recorded fitness video courses, live-streaming, our *Keeper* community and membership subscriptions, which are offered through our *Keep* app, involves a mixture of engaging in: (i) audio-visual program services; (ii) internet cultural business; (iii) radio and television program production business; and (iv) VAT business. Since these businesses fall within both “foreign-prohibited” and “foreign-restricted” business categories under the Investment Restrictions, we are unable to set up an alternative structure to our current corporate structure through the Contractual Arrangements that would allow us to partially control, and derive substantially all of the economic benefits from, these entities. Additionally, the VAT business provided by the relevant entities are integrated into the operation of online recorded fitness video courses, live-streaming and our *Keeper* community and cannot be separated from our transmitting audio-visual program services and providing internet cultural business and radio and television program production business, which falls under the “foreign-prohibited” business category.

In addition, we operate certain services that are not restricted under PRC Laws but are ancillary to, and inseparable from, prohibited businesses, and hence such services cannot be operated outside of our Contractual Arrangement structure. This includes: (a) customer service (i.e., providing customer communication channels, through which users of the *Keep* app can contact our customer service officers to communicate feedback or queries) and other maintenance services (i.e., customer account maintenance services and after-sales service and maintenance, as well as back-end functions such as data storage, security and server side functions) for our *Keep* app, which is embedded within, and accessible through, our *Keep* app, and is closely linked to and is an inseparable part of operating our online recorded fitness video courses, live-streaming and our *Keeper* community, which falls under the “foreign-prohibited” business category; (b) operating a traditional e-commerce business (i.e., selling products through our self-operated online store on the *Keep* app) that is embedded within, and accessible through, our *Keep* app; and (c) operating live streaming e-commerce business (i.e., selling products through links embedded or presented in live streaming courses, and where broadly defined, also includes selling access to live streaming courses) that is embedded within, and accessible through, our *Keep* app, and that is fully integrated into and forms an inseparable part of our live streaming business, which, as mentioned above, falls under the foreign-prohibited business category.

Our traditional e-commerce and live streaming e-commerce businesses on the *Keep* app (i.e., selling directly through our own platform) are separate from, and do not form part of, our Group’s e-commerce business conducted on third-party platforms (“**e-commerce activity on third-party platforms**”), which includes sales to our wholesale channels online and direct-to-customer sales on online third party platforms.

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E-commerce (i.e., the act of selling through an online medium) is not, in itself, a “foreign-prohibited” or “foreign-restricted” business. However, our operation of traditional e-commerce and live streaming e-commerce activities must remain within our VIE structure because: (a) it is operated by the same entity (Onshore Holdco) and platform (our *Keep* app) that also operates “foreign-prohibited” and “foreign-restricted” businesses; and (b) both traditional and live streaming e-commerce activities are fully integrated into and cannot be divorced from activities constituting “foreign-prohibited” or “foreign-restricted” businesses (e.g., our traditional e-commerce is conducted through our *Keep* app, while our live streaming e-commerce is embedded in and accessed through our live streaming sessions).

Our e-commerce activity on third-party platforms operate outside of our VIE structure and are not subject to the Contractual Arrangements and are not considered “foreign-prohibited” or “foreign-restricted” businesses for our Company. This is because, as mentioned above, it is not the e-commerce activity itself that is required to be within our VIE structure, but rather, it is its fusion with other “foreign-prohibited” and “foreign-restricted” businesses that renders it inseparable from activities that are required to be within our VIE structure. Since our e-commerce activity on third-party platforms can be operated separately from our “foreign-prohibited” or “foreign-restricted” businesses, following our reorganization, this business is operated outside of our VIE structure.

In respect of the VAT Qualification Requirements, our PRC Legal Adviser has advised us that the foreign investor’s fulfillment of the VAT Qualification Requirements is ultimately subject to MIIT examination of the substance and merits. Given that our VAT business is integrated into, and forms part of, the business that falls under the “foreign-prohibited” business category, we and our PRC Legal Adviser are of the view that it is not viable for our Company to hold any equity interest in those Consolidated Affiliated Entities that currently, or will in the future, engage in VAT business operations, other than through our Contractual Arrangements.

Furthermore, given that the “foreign-restricted” business (being the VAT business) is operated by, and is completely integrated into and cannot be divorced from, the above-mentioned three “foreign-prohibited” businesses, a regulatory confirmation with respect to our satisfying the VAT Qualification Requirements would not have any affect on our Company’s ability to hold any equity interest in Onshore Holdco since we would, irrespective of meeting the VAT Qualification Requirements, still be prohibited from holding any equity interest in Onshore Holdco (or another entity operating our VAT business) under current PRC laws as Onshore Holdco (or such other entity) would also be operating “foreign-prohibited” businesses. As at the date of this document, the Company has not received any enquiries or notices from the relevant authorities with regards to the Contractual Arrangements and VIE structure, or their compliance with applicable PRC Laws.

The remaining Consolidated Affiliated Entities, namely Beijing Calorie Sports Co., Ltd., Shanghai Calorie Sports Co., Ltd, Calorie Sports Management (Beijing) Co., Ltd., and Shenzhen Calorie Technology Co., Ltd., do not have any business operations and are not expected to commence any operations before Listing. These entities provide our Group with greater flexibility to operate or invest in future foreign-prohibited and/or foreign-restricted businesses should an appropriate opportunity arise and enable our Group to better organize and structure our corporate and business activities, including facilitating in acquisitions or disposals in the PRC. To the maximum extent permissible under PRC laws, we will not operate or control any business that is not foreign-prohibited or foreign-restricted through these entities and, in respect of any business operations conducted through

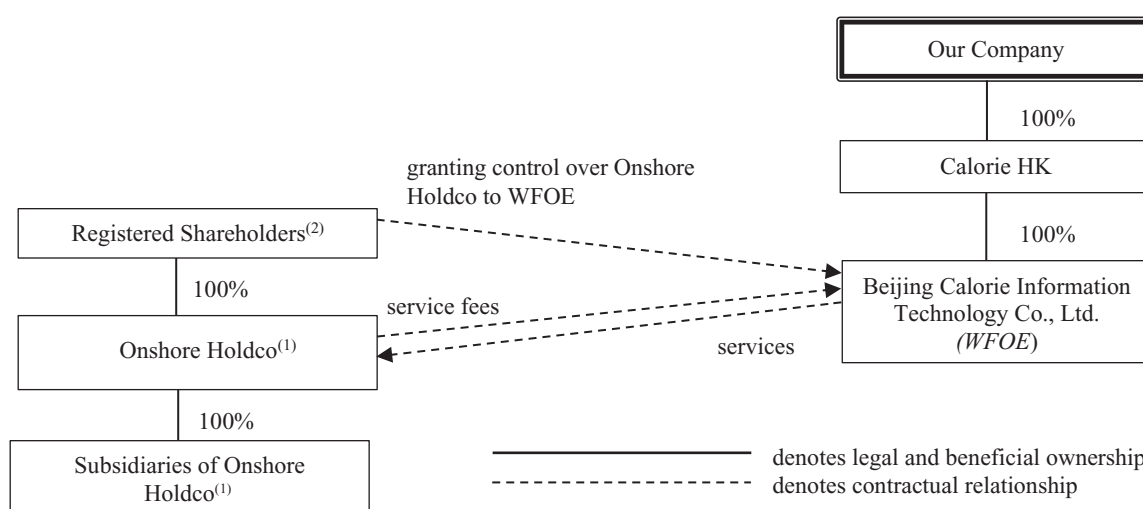
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these entities in the future, we will hold the maximum percentage of equity interest permissible under PRC laws by our subsidiaries outside of the VIE structure such that our VIE structure, as a whole, remains narrowly tailored.

Based on the above reasons, we and our PRC Legal Adviser are of the view that the Contractual Arrangements and VIE structure are narrowly tailored. We will unwind and terminate the Contractual Arrangements wholly or partly once our businesses are no longer prohibited or restricted from foreign investment and to the extent permissible under PRC Laws.

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The following simplified diagram illustrates our VIE structure under the Contractual Arrangements:



Notes:

- (1) These constitute our Consolidated Affiliated Entities.
- (2) The Registered Shareholders are four individuals. Mr. Wang Ning, Mr. Peng Wei, Mr. Wen Chunpeng and Mr. Liu Dong, who each holds 85.4%, 8.1%, 4.8% and 1.7% equity interest in Onshore Holdco, respectively. Mr. Wang is our founder and serves as the chairman of our Board and executive officer of our company. Mr. Peng and Mr. Liu are our co-founders, Directors and part of senior management of our Company. Mr. Wen is our co-founder, an employee and a director of certain subsidiaries that operate our *Keeland* business.

Arrangements that allow us to receive economic benefits from our Consolidated Affiliated Entities

Consulting and Services Agreement

Under the amended and restated exclusive consulting and services framework agreement dated December 27, 2021 entered into by WFOE and Onshore Holdco (the “**Consulting and Services Agreement**”), WFOE will provide (a) support services to Onshore Holdco based on the needs of its three main businesses; and (b) administrative support services (e.g., finance, legal and human resources services) to Onshore Holdco, based on the needs of its daily operations. The three main businesses are membership subscriptions, advertising business and e-commerce business. In consideration, Onshore Holdco will pay WFOE service fees based on the cost of services with a markup determined by the parties. Additionally, all intellectual property rights (including copyrights, patents, technical know-how and trade secrets) arising from the performance of this agreement would exclusively belong to and be the right of WFOE, and WFOE shall be held harmless by Onshore Holdco. This agreement is for an

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initial term of three years, and automatically renewed by two-year periods thereafter, unless otherwise expressly provided by law (in which case the WFOE may, at its sole discretion, determine whether to renew this agreement). Onshore Holdco may not terminate this agreement except as expressly required by law.

Business Cooperation Agreement

Under the amended and restated exclusive business cooperation agreement dated December 27, 2021 entered into by WFOE, Onshore Holdco and the Registered Shareholders (the “**Business Cooperation Agreement**”), among other things, (a) the Registered Shareholders undertook that the Onshore Holdco will not to engage in transactions that could materially affect the assets, business, personnel, rights, obligations or operations of Onshore Holdco without the written consent of WFOE or its designated party; and (b) Onshore Holdco and the Registered Shareholders agree to appoint WFOE’s candidate as Onshore Holdco’s director or remove or replace any director or senior manager, and accept WFOE’s recommendation on employment, daily management of operations, and financial management matters in respect of Onshore Holdco. This agreement is for an initial term of fifteen years, and may be extended upon WFOE’s request. Additionally, WFOE may terminate this agreement at any time; but neither Onshore Holdco nor the Registered Shareholders has a right to terminate this agreement. Additionally, all rights and obligations under this agreement will be binding on the parties’ successors and assignees, and in particular, WFOE’s successors (including administrators and liquidators) may inherit WFOE’s rights and obligations under this agreement.

Arrangements that provide us with effective control over our Consolidated Affiliated Entities

Option Agreement

Under the amended and restated exclusive transfer option agreement dated December 27, 2021 entered into by WFOE, Onshore Holdco and the Registered Shareholders (the “**Option Agreement**”), each Registered Shareholder granted to WFOE or its designated person an irrevocable and exclusive option to acquire, at any time, all their equity interests in Onshore Holdco at the minimum price permissible under PRC Laws. The option period is from the agreement date until all Registered Shareholders have transferred all their equity interests in Onshore Holdco to WFOE or its designated person.

To better manage our Group’s loss exposure, if any:

- (a) the Registered Shareholders undertook to WFOE that, unless with prior consent of WFOE or its designated person, the following matters, among others, would not take place: (i) supplement, modify or amend constitutional documents of Onshore Holdco that would materially adversely affect Onshore Holdco’s assets, operations, liabilities, equity interests, other legitimate rights or performance of this agreement, or procure Onshore Holdco to enter into transactions that will materially adversely affect the assets, operations, equity interests and other legitimate rights of Onshore Holdco; (ii) changing the board or senior management composition of Onshore Holdco; (iii) approving any dividend or bonus distributions; (iv) disposing of or otherwise encumbering Onshore Holdco’s equity interest; (v) taking any act relating to restructuring (e.g., mergers and acquisitions, investing in third-parties, liquidating or dissolving Onshore Holdco);
- (b) the Registered Shareholders additionally undertook to, among others: (i) immediately notify WFOE of any litigation, arbitration or administrative procedure occurring or likely

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- occurring that is related to or may materially adversely affect the equity interests of Onshore Holdco; (ii) comply with this agreement and any other agreement with WFOE and perform their obligations thereunder; (iii) cooperate and take necessary actions to assist in the performance of the Option Agreement (e.g., amending Onshore Holdco’s constitutional documents and make relevant registrations to reflect any transfer under this agreement); (iv) ensure that any proceeds distributed by Onshore Holdco received by Registered Shareholders (e.g., as profit or dividend distribution or proceeds from liquidation) will be gifted in the manner designated by WFOE as permissible under PRC Laws; and
- (c) Onshore Holdco undertook to WFOE that, unless with prior consent of WFOE or its designated person, the following matters, among others, would not take place: (i) taking actions that would materially adversely affect its assets, operations, liabilities, equity interest and other legitimate rights (e.g., incurring any debts or entering into any material contracts) (other than those arising out of the ordinary course of business); (ii) distributing dividends or bonuses to its shareholders; (iii) disposing of or otherwise encumbering its assets, business or income (other than those arising out of the ordinary course of business); and (iv) amending its constitutional documents, entering into any merger, or acquiring or investing in third-parties.

Share Pledge Agreements

On December 27, 2021, each Registered Shareholder entered into an amended and restated share pledge agreement with WFOE and Onshore Holdco (“**Share Pledge Agreements**”). Under these agreements, each Registered Shareholder pledged all their equity interest in Onshore Holdco, held from time to time, to WFOE to guarantee performance under the Contractual Arrangements by the shareholder and Onshore Holdco. The pledge period is from the agreement date until all contractual obligations are fulfilled or guaranteed debts fully paid off.

To preserve the pledged interests, each Registered Shareholder undertook that, among others: (i) the pledged interests will not be transferred or encumbered without WFOE’s prior written consent; and (ii) any rights over the pledged interests enjoyed by WFOE shall not be prejudiced by the Registered Shareholder or their successor or any other person at any time and in any manner, and the Registered Shareholder shall take all necessary and required measures and execute all necessary and required documents to assist WFOE in realizing its rights over the pledged interests.

Powers of Attorney

On December 27, 2021, each Registered Shareholder granted an amended and restated power of attorney (the “**Powers of Attorney**”), under which the Registered Shareholder irrevocably appointed WFOE or its designated person to act as the Registered Shareholder’s attorney-in-fact (“**attorney-in-fact**”) with respect to all rights attached to equity interests in Onshore Holdco held by the Registered Shareholder from time to time. These rights include, among others: (i) proposing to convene and attend a shareholders’ meeting or signing any relevant shareholders’ resolutions; (ii) exercising all rights attached to the equity interests at law and under Onshore Holdco’s constitutional documents (including voting rights and transferring or pledging relevant equity interests in Onshore Holdco); and (iii) nominating and appointing Onshore Holdco’s legal representative, chairpersons, directors and senior management. To avoid conflicts of interest, the attorney-in-fact shall

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not be Onshore Holdco’s shareholder or persons who are not independent or may have conflicts of interest. Other than this, the attorney-in-fact may be a director of our Group (who does not have a material conflict of interest) and an administrator or liquidator of WFOE. Each Power of Attorney remains in effect until the Registered Shareholder ceases to be a shareholder of Onshore Holdco.

Spousal consents

Each spouse of the Registered Shareholders has, where applicable, undertaken: (i) not to take any action with the intent to interfere with the arrangements under the Contractual Arrangements, including making any claim that such equity interest constitutes the property or community property; (ii) to unconditionally and irrevocably waive any and all rights or entitlements whatsoever to such equity interest that may be granted to the spouse according to any applicable laws; and (iii) to the extent the spouse acquires any equity interest in Onshore Holdco, to enter into a set of contractual arrangements with the same or comparable terms as the Contractual Arrangements.

Further information about our Contractual Arrangements

Onshore Holdcos’s subsidiaries

The Contractual Arrangements are entered into among WFOE, Onshore Holdco and its Registered Shareholders. Nevertheless, there are sufficient protective measures in place with respect to our Company’s interests over Onshore Holdco’s subsidiaries, including: (a) the subsidiaries are wholly-owned and controlled by Onshore Holdco, over which we have extensive control including over the composition of Onshore Holdco’s board of directors and senior management (under the Option Agreement); and (b) both Onshore Holdco and its Registered Shareholders have undertaken to WFOE under the Option Agreement that, without the prior consent of WFOE, no actions would be taken that would materially adversely affect the assets, operations, liabilities, equity interest and other legitimate rights of Onshore Holdco, the scope of which covers Onshore Holdco’s subsidiaries given that their operations, business and financials are consolidated into those of Onshore Holdco.

Dispute resolution

Disputes arising from the Contractual Arrangement agreements shall be resolved through good faith negotiations. If a dispute is not resolved within 30 days after one party issues a notice to negotiate, either party to the agreement may submit the dispute to the China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration in Beijing in accordance with the then-effective arbitration rules of CIETAC. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that to the extent permitted by PRC Laws, the arbitral tribunal may award remedies over the shares or assets of our Onshore Holdco or injunctive relief (e.g., limiting the conduct of business, limiting or restricting transfer or sale of assets) or order the winding up of Onshore Holdco. Any party may apply to a court with competent jurisdiction to: (i) grant interim measures while the arbitration tribunal is being established (including specific performance and relief over Onshore Holdco’s assets); and (ii) enforce an arbitral award after it becomes effective. “Competent jurisdiction” includes Cayman Islands, Hong Kong, the PRC and any other jurisdiction in which Onshore Holdco’s main assets are located. During arbitration, except for the disputed areas that are subject to arbitration, the parties shall continue to perform their other obligations under the Contractual Arrangements.

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However, our PRC Legal Adviser advises that: (i) the tribunal would not normally grant injunctive relief or order the winding up of Onshore Holdco under current PRC Laws; and (ii) interim remedies or enforcement orders granted by overseas courts, such as those of Hong Kong or Cayman Islands, may not be recognizable or enforceable under the current PRC Laws. As such, if a breach occurs under the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, which may materially and adversely affect, among others, our ability to control the Consolidated Affiliated Entities and their businesses and continue to consolidate their financials into our Group. See “Risk Factors—Risks Related to Our Corporate Structure”.

Conflict of Interests

See “Share Pledge Agreements” and “Powers of Attorney” in “—Arrangements that provide us with effective control over our Consolidated Affiliated Entities” above.

Loss Sharing

Under current PRC Laws, neither our Company nor WFOE is legally required to share losses of, or provide financial support to, Onshore Holdco. Further, Onshore Holdco is a limited liability company that is solely liable for its own debts and losses in relation to its assets and liabilities.

Notwithstanding this, WFOE intends to provide continuous support and assistance to Onshore Holdco and its subsidiaries, as necessary, and their financial performance will be consolidated into our Company’s accounts. As such, our operational and financial performance would be materially and adversely affected if Onshore Holdco suffers loss. To minimize the risk of loss, we have undertaken a number of measures under the Contractual Arrangements. In particular, see “Option agreement” and “Share pledge agreements” in the sub-section “—Arrangements that provide us with effective control over our Consolidated Affiliated Entities” above for more information.

Succession

WFOE’s rights over Onshore Holdco may be survived by a liquidator in the event of winding-up, including through: (i) the administrator or liquidator being appointed the attorney-in-fact under the Powers of Attorneys and gaining control over Onshore Holdco as if they were the shareholders; and (ii) through the dispute resolution mechanism of the Contractual Arrangements, which provides the arbitral tribunal with power to, among other things, award remedies over the shares or assets of Onshore Holdco and grant injunctive relief.

In the event that Onshore Holdco is wound-up, WFOE’s interests in Onshore Holdco are protected, including through: (i) the Registered Shareholders undertaking in the Option Agreement that, among other things, proceeds received by them from liquidation would be gifted to WFOE’s designated person; (ii) the Registered Shareholders undertaking in the Share Pledge Agreements that, among other things, WFOE’s rights over the pledged shares would not be prejudiced by the Registered Shareholders or their successors; and (iii) each spouse of the Registered Shareholders undertaking, among other things, in the event of acquiring any equity interest in Onshore Holdco, to enter into a set of contractual arrangements with the same or comparable terms as the Contractual Arrangements to preserve WFOE’s rights as against such spouse.

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Insurance

We do 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 businesses through the Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

We believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC Laws.

In addition, our PRC Legal Adviser is of the opinion that:

- (a) parties to each of the agreements have obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements, and each of the agreements is binding on the parties thereto;
- (b) none of the Contractual Arrangements violates any provisions of the articles of association of WFOE or Onshore Holdco;
- (c) the Contractual Arrangements would not fall within the circumstances stipulated in the PRC Civil Code including in particular “impairing others’ legitimate rights and interests with malicious collusion”, which will lead the arrangements to be deemed an invalid act under the PRC Civil Code;
- (d) the execution and performance of the Contractual Arrangements are not required to obtain any approvals or authorisations from the PRC governmental authorities, except that:
 - (i) the exercise of the option by WFOE or its designee of its rights under the Contractual Arrangements to acquire all or part of the equity interests in and/or assets of Onshore Holdco is subject to the approvals of, consent of, filing with and/or registrations with the PRC governmental authorities;
 - (ii) any share pledge contemplated under the Share Pledge Agreements are subject to the registration and/or filing with competent administration bureau for market regulation; and
 - (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements and/or any ruling/judgment granted by overseas courts shall be recognized by the PRC courts before compulsory enforcement; and
- (e) the Contractual Arrangement is enforceable under the PRC Laws, except in relation to the provisions regarding the dispute resolution and the liquidation mechanisms under these agreements. These agreements 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 Onshore Holdco or injunctive relief (e.g., for the conduct of

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business or to compel the transfer of assets) or order the winding-up of Onshore Holdco; and the courts of Hong Kong, the Cayman Islands and the PRC also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies. However, our PRC Legal Adviser has advised that the tribunal normally would not grant such injunctive relief or order the winding-up of Onshore Holdco pursuant to current PRC Laws. In addition, interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable under the current PRC Laws.

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.

See “Risk Factors—Risks Related to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating some of our operations in China do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations”.

Nevertheless, based on the above analysis and advice from our PRC Legal Adviser, our Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the current applicable PRC Laws.

DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the NPC approved the Foreign Investment Law which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Implementation Rules of the Foreign Investment Law, which came into effect on January 1, 2020. 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 Rules of the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

As advised by our PRC Legal Adviser, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law and the Regulations on the Implementation of the Foreign Investment Law, and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties with an exception, for which, see “Contractual Arrangements—Legality of the Contractual Arrangements”.

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of Onshore Holdco, by WFOE, through which we operate our business in the PRC. The Foreign Investment Law

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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 Onshore Holdco will not be materially and adversely affected in the future due to changes in PRC Laws and regulations.

See “Risk Factors—Risks Related to Our Corporate Structure—Our current corporate structure and business operations may be substantially affected by the newly enacted Foreign Investment Law”.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and
- (d) 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 Onshore Holdco to deal with specific issues or matters arising from the Contractual Arrangements.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Under the Consulting and Services Agreement and the Business Cooperation Agreement, it was agreed that, in consideration of the services provided by WFOE, Onshore Holdco shall pay service fees to WFOE. The service fee shall equal the cost of the services provided and a mark-up determined by the parties. Additionally, WFOE has a right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities.

In addition, under the Option Agreement and Share Pledge Agreements, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders given that WFOE’s prior written consent is required before any distribution can be made. If the Registered Shareholders receive any income, profit distribution or dividend, they shall promptly transfer or pay such income, profit distribution or dividend to WFOE or its designated person to the extent permissible under PRC Laws.

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As a result of the Contractual Arrangements among WFOE, Onshore Holdco and the Registered Shareholders, WFOE is able to effectively control, recognize and receive the economic benefit of the business and operations of the Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are treated as controlled entities of our Company and consolidated by our Company. The basis of consolidating the results of the Consolidated Affiliated Entities is disclosed in Note 2.2.1 to the Accountant’s Report set out in Appendix I to this document.