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PRC REGULATORY BACKGROUND

Overview

Foreign investment activities in the PRC are mainly governed by the Special Management Measures (Negative List) for the Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021版)》) (the “**Negative List**”) and the Catalog of Industries for Encouraging Foreign Investment (2022 Version) (《鼓勵外商投資產業目錄(2022年版)》) (the “**Encouraging Catalog**”), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalog divide industries into three categories with regard to foreign investment: “encouraged”, “restricted” and “prohibited”. Industries not listed in the Encouraging Catalog and the Negative List are generally deemed as falling into a fourth category “permitted”. As advised by our PRC Legal Advisor, a summary of our business/operation that is subject to foreign investment restriction in accordance with the Negative List and other applicable PRC laws and on consultations with relevant governmental authorities is set out below (the “**Relevant Businesses**”):

<u>Categories</u>	<u>Our business/operation</u>
Medical services	<p>As advised by our PRC Legal Advisor, medical services in the PRC was not subject to any foreign investment restrictions under Catalog of Industries for Guiding Foreign Investment (2011 Version) (《外商投資產業指導目錄(2011年版)》), the “2011 Catalog”, effective on January 30, 2012, which was subsequently replaced by Catalog of Industries for Guiding Foreign Investment (2015 Version) (《外商投資產業指導目錄(2015年版)》), the “2015 Catalog”, effective upon April 10, 2015. As such, we own and operate our medical institutions incorporated prior to April 10, 2015 through a foreign ownership structure by Xikang WFOE. For details, please refer to “History – Foreign Investment into Medical Institutions and Our Compliance with Relevant Rules” in this document.</p> <p>However, following the issue of the 2015 Catalog, operation of “medical institution” established on or after April 10, 2015 in the PRC falls within the “restricted category” for foreign investment under the PRC laws. Further, according to the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (《中外合資、合作醫療機構管理暫行辦法》), foreign investors are not allowed to hold more than 70% equity interest in a “medical institution”.</p>

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Our business/operation

With respect to the foreign investment restriction on medical services, the respective PRC legal advisors of our Company and of the Sole Sponsor conducted verbal consultations with an officer in the Medical Administration Bureau (醫政醫管局) of the NHC who verbally confirmed that, (i) except for medical institutions incorporated in Sichuan Province which are subject to less stringent foreign investment restrictions, foreign investors are not allowed to hold, either directly or indirectly, more than 70% equity interest in a medical institution, and same restrictions also apply to operation of “internet hospitals” in the PRC; and (ii) the adoption of the Contractual Arrangements does not require any approval from relevant health administrations. Further, based on telephone consultation by respective PRC legal advisors of our Company and of the Sole Sponsor with an officer of the Health Commission of Sichuan (四川省衛生健康委員會), foreign investors are not allowed to hold, either directly or indirectly, more than 90% equity interest in a medical institution in Sichuan Province.

Our PRC Legal Advisor is of the view that the NHC and the Health Commission of Sichuan are the competent authorities and the officers consulted are competent to represent the NHC and the Health Commission of Sichuan to give such confirmation in respect of foreign investments.

Value-added
telecommunication
services

The provision of telecommunication information services and online data processing and transaction processing services through mobile application and internet engaged by Xikang Information falls within the scope of value-added telecommunication service 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》) (the “**FITE Regulations**”) promulgated by the State Council, taking effect on January 1, 2002 and last amended in March 2022 with effect from May 1, 2022.

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Our business/operation

Pursuant to the Negative List, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting value-added telecommunication services (excluding e-commerce, domestic multi-party communication services, store-and-forward services and call center services). According to the 2022 FITE Regulations, foreign investors are permitted to hold up to 50% equity interests in enterprises conducting value-added telecommunication services, except as otherwise stipulated by the state, provided that the foreign investors shall satisfy with some requirements, including the minimum amount of registered capital under the 2022 FITE Regulations. The 2022 FITE Regulations no longer requires the main foreign investor who invests in a value-added telecommunications business in the PRC to have a good track record and experience in operating a value-added telecommunications business.

Xikang Information currently holds a value-added telecommunications business operating license for information services (Internet information services only) (“**ICP License**”), and a license for value-added telecommunications services with the specification of online data processing and transaction processing business (“**EDI License**”).

The respective PRC legal advisors of the Company and of the Sole Sponsor conducted telephone consultations with the MIIT on foreign investment restriction on value-added telecommunications business, and the Beijing Communication Administration on the adoption of the Contractual Arrangements, respectively. During the consultations, the officers of MIIT and Beijing Communication Administration confirmed that (i) foreign investors are prohibited from holding more than 50% of the equity interests in a company providing value-added telecommunication services (excluding e-commerce, domestic multi-party communication services, store-and-forward services and call center services); (ii) the adoption of the Contractual Arrangements would not be challenged by or requires approval from relevant telecommunication administrations and are not subject to any penalties pursuant to current effective regulations; (iii) the value-added telecommunications business operating license currently held by Xikang Information will be revoked by the Beijing Communication Administration if a foreign investor directly or indirectly holds any equity interest in Xikang Information; and (iv) in case of Xikang Information’s operating business, due to MIIT’s policy requirements, Xikang Information will not be granted a value-added telecommunications business operating license through any foreign investment entity. Our PRC Legal Advisor has confirmed that each of the Beijing Communication Administration and MIIT is competent authorized and the officers of the Beijing Communication Administration and MIIT consulted are competent to represent MIIT and Beijing Communication Administration to provide such confirmation.

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We will also make periodic inquiries with relevant PRC authorities to understand any new regulatory development and assess whether the relevant government authority will grant the value-added telecommunications business operating license to a sino-foreign equity joint venture established by us.

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As foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under PRC laws and regulations as outlined above, we do not directly own or wholly own equity interests in our Consolidated Affiliated Entities, as the case may be. Each of Xikang Medical and Xikang Information is held as to 80% by Ms. Zong Wenhong, our executive Director and chief executive officer and 20% by Ms. Wang Shuli, our vice president and chief financial officer. We obtained control over Xikang Medical and Xikang Information via a series of contractual arrangements signed among Xikang WFOE, Xikang Medical, Xikang Information, Ms. Zong Wenhong and Ms. Wang Shuli, where applicable.

In view of the aforementioned PRC regulatory background, and our PRC Legal Advisor's verbal consultation with the competent authorities as mentioned above, we determined that it was not viable for our Company to (i) hold more than 70% equity interests in Ningbo Xikang and its subsidiary, Shenyang Cloud Hospital, Shaanxi Xikang, and Shanghai Xikang and its subsidiary, respectively, which are engaged in medical services; (ii) hold more than 90% equity interests in Chengdu Xikang which is engaged in medical service; or (iii) hold Xikang Information directly through equity ownership. Instead, we decided that in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive the economic benefits generated by the businesses currently operated by the Consolidated Affiliated Entities through the Contractual Arrangements between Xikang WFOE, on the one hand, and Xikang Medical, Xikang Information and the Registered Shareholders, on the other, where applicable.

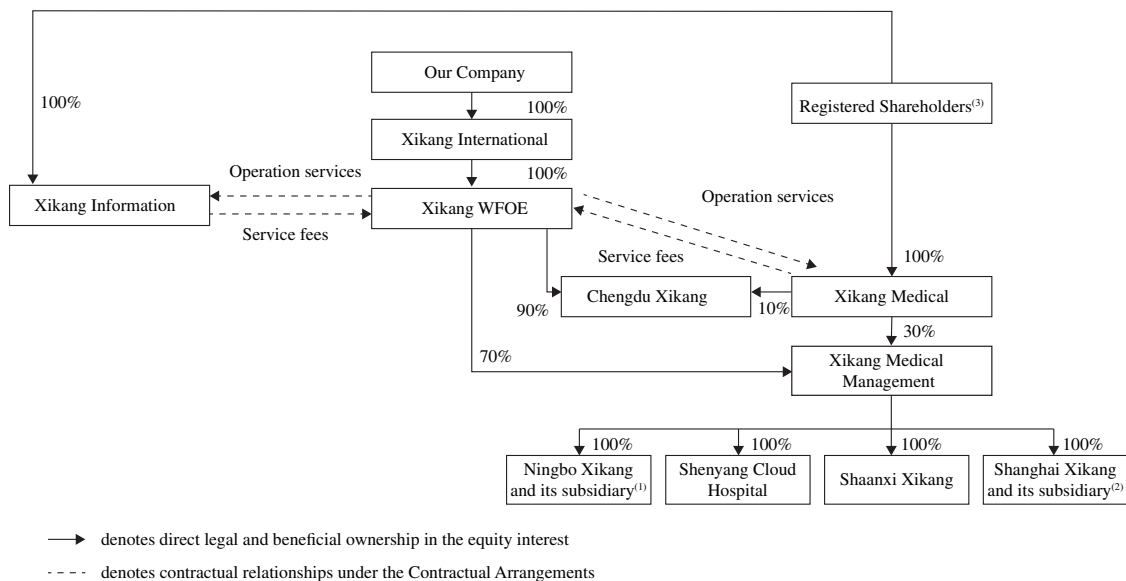
In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. In connection with the [REDACTED] and in order to ensure that our Contractual Arrangements are, and will continue to remain, narrowly tailored in accordance with the Stock Exchange's requirements, (i) Xikang Medical Management transferred 90% and 10% of the equity interest in Chengdu Xikang, a company engaged in medical services which was subject to foreign investment restrictions pursuant to the applicable PRC laws and regulations, to Xikang WFOE and Xikang Medical, respectively on April 30, 2021, and (ii) we entered into the current set of Contractual Arrangements on May 18, 2021 to terminate and replace the Previous Contractual Arrangements entered into between Xikang WFOE, each of Xikang Information and Xikang Medical and their respective shareholders. Xikang WFOE has effective control over the financial and operational performance of the Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. See the section headed "History,

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Reorganization and Corporate Structure – Restructuring of Onshore Entities” in this document for further details. 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 Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into among the parties; (ii) by entering into the Exclusive Management Consultancy and Business Cooperation Agreements with Xikang WFOE, which is our subsidiary incorporated in PRC, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the [REDACTED], and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

The following simplified diagram illustrates our Contractual Arrangements:



Notes:

- (1) The subsidiary of Ningbo Xikang refers to Ningbo Cloud Hospital.
- (2) The subsidiary of Shanghai Xikang refers to Shanghai Clinic.
- (3) As of the Latest Practicable Date, each of Xikang Medical and Xikang Information is held as to 80% by Ms. Zong Wenhong, our executive Director and chief executive officer and 20% by Ms. Wang Shuli, our vice president and chief financial officer. Notwithstanding that each of the Registered Shareholders may hold limited beneficial interest in the Company’s issued share capital upon the [REDACTED], the Group has adopted the following safeguards to manage the potential risks arising from the Contractual Arrangements:
 - (A) The Contractual Arrangements enable WFOE to exercise effective control over Xikang Medical and Xikang Information. No event of default has ever occurred since our current contractual arrangements were put in place and we have not experienced any practical difficulties in enforcing the contractual arrangements. The contractual arrangements agreements are binding upon both of the Registered Shareholders, which are in compliant with the requirements of the HKEX-LD43-3;

CONTRACTUAL ARRANGEMENTS

- (B) According to the Contractual Arrangements, the Registered Shareholders entered into the Exclusive Option Agreements (defined below), pursuant to which the Registered Shareholders unconditionally and irrevocably agree to grant Xikang WFOE an exclusive option to purchase all or part of the equity interests in our Onshore Holdcos, as the case may be, for the minimum amount of consideration permitted by applicable PRC laws. Further, the Registered Shareholders and Xikang WFOE also entered into the Equity Pledge Agreements (defined below), according to which the Registered Shareholders unconditionally and irrevocably pledged all of the equity interests in the Onshore Holdcos to Xikang WFOE in order to guarantee Onshore Holdcos’ and their respective Registered Shareholders’ performance of obligations under the Contractual Arrangements; and
- (C) The Group is managed centrally by the Board and the senior management members as disclosed in “Directors and Senior Management” of the Document, who is primarily responsible for the day-to-day and overall management of the business and operations of the Group. As members of the senior management, Ms. Zong Wenhong and Ms. Wang Shuli, being the Registered Shareholders, are dedicated to carrying out decisions made centrally by the Board and senior management of the Group.

The table below sets forth the principal business activities of our Consolidated Affiliated Entities:

Consolidated Affiliated Entity	Principal business activities
Xikang Information	Provision of telecommunication information services and online data processing and transaction processing services through mobile application and internet
Xikang Medical	Investment holding company of Xikang Medical Management
Xikang Medical Management	Investment holding company of Ningbo Xikang, Shenyang Cloud Hospital, Shaanxi Xikang and Shanghai Xikang
Ningbo Xikang	Investment holding company of Ningbo Cloud Hospital
Ningbo Cloud Hospital	Provision of Internet medical services and health management services
Shenyang Cloud Hospital	Provision of Internet medical services and health management services
Shaanxi Xikang	Provision of Internet medical services and health management services
Shanghai Xikang	Investment holding company of Shanghai Clinic
Shanghai Clinic	Provision of Internet medical services and health management services
Chengdu Xikang	Provision of Internet medical services and health management services

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Xikang Information currently holds an ICP License and an EDI License. As advised by our PRC Legal Advisor, the provision of telecommunication information services and online data processing and transaction processing services through mobile application and internet engaged by Xikang Information falls within the scope of value-added telecommunication service under the FITE Regulations. In addition, Xikang Medical, Xikang Medical Management and/or its subsidiaries and Chengdu Xikang operate "medical institutions" established on or after April 10, 2015, which falls within the "restricted category" for foreign investment under the PRC laws. See " – PRC Regulatory Background – Overview" in this section for further details.

For the years ended December 31, 2020, 2021 and 2022, the Consolidated Affiliated Entities in aggregate accounted for 32.5%, 36.8% and 37.9% of our revenue, and 8.7%, 3.9% and 3.5% of our loss for the year/period, respectively.

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

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

Exclusive Management Consultancy and Business Cooperation Agreements

As part of the Xikang Information Contractual Arrangements and the Xikang Medical Contractual Arrangements, (i) Xikang Information, Xikang WFOE and the Registered Shareholders entered into the exclusive management consultancy and business cooperation agreement on May 18, 2021; and (ii) Xikang Medical, Xikang WFOE and the Registered Shareholders entered into the exclusive management consultancy and business cooperation agreement on May 18, 2021 (collectively, the "**Exclusive Management Consultancy and Business Cooperation Agreements**"). Pursuant to the Exclusive Management Consultancy and Business Cooperation Agreements, which contain similar terms and conditions, Xikang WFOE has the exclusive right to provide, or designate any third party to provide each of the Onshore Holdcos with corporate management consulting services, intellectual property licencing services as well as technical and business support services. Such services include:

- (i) the provision of advisory services and recommendations on asset and business operation, debt disposal, material contracts (including negotiations, execution and performance of the same), mergers and acquisitions, the development, maintenance and research services on computer system, software and products, employee management training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resources and internal informatization management, network development, upgrade and ordinary maintenance services, sales of propriety products, licensing software, trademark, domain name and know-how and/or the use of related intellectual property rights, and
- (ii) other additional services as the parties may mutually agree from time to time.

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Without Xikang WFOE's prior written consent, none of the Onshore Holdcos may accept services covered by the Exclusive Management Consultancy and Business Cooperation Agreements from any third party. Xikang WFOE owns all intellectual property rights arising out of the performance of the agreements.

In exchange, the Onshore Holdcos agree to pay the entirety of their total income (net of costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld except the enterprise income tax) to Xikang WFOE as the service fee.

Under the Exclusive Management Consultancy and Business Cooperation Agreements, without prior written approval from Xikang WFOE, the Onshore Holdcos shall not enter into any transaction (save as those transactions entered into in the ordinary course of business) that may affect its assets, obligations, rights or operation, including but not limited to (i) the provision of any security or guarantee in favour of any third party or the creation of any encumbrances in relation to its assets; (ii) the entry into of any loan or debt obligations in favour of any third party; and (iii) in relation to any third party the disposal, acquisition or otherwise dealing of any assets (including but not limited to intellectual properties) with a value higher than RMB500,000.

In addition, under the Exclusive Management Consultancy and Business Cooperation Agreements, without prior written consent of Xikang WFOE, none of the Onshore Holdcos shall change or remove the members of its board of directors who are appointed by Xikang WFOE in accordance with the articles of association of each of the Onshore Holdcos. Xikang WFOE also has the right to appoint the directors, general managers, financial controllers and other senior managers of the Onshore Holdcos. Xikang WFOE has absolute control over the distribution of dividends or any other amounts to the shareholders of the Onshore Holdcos as the Onshore Holdcos and their shareholders have undertaken not to make any distribution without Xikang WFOE's prior written consent.

Exclusive Option Agreements

As part of the Xikang Information Contractual Arrangements and the Xikang Medical Contractual Arrangements, (i) Xikang Information, Xikang WFOE and the Registered Shareholders entered into the exclusive option agreement on May 18, 2021; and (ii) Xikang Medical, Xikang WFOE and the Registered Shareholders entered into the exclusive option agreement on May 18, 2021 (collectively, the "**Exclusive Option Agreements**"). Pursuant to the Exclusive Option Agreements, which contain similar terms and conditions, the Registered Shareholders unconditionally and irrevocably agree to grant Xikang WFOE an exclusive option to purchase all or part of the equity interests in our Onshore Holdcos, as the case may be, for the minimum amount of consideration permitted by applicable PRC laws, under circumstances in which Xikang WFOE or its designated third party is permitted under PRC laws to acquire all or part of the equity interests of our Onshore Holdcos.

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Where the purchase price is required by relevant PRC laws and regulations to be an amount other than nil consideration, the Registered Shareholders undertake to return the amount of purchase price they have received to Xikang WFOE or any of its designated third party.

To prevent the flow of the assets and value of the Onshore Holdcos to their respective shareholders, pursuant to the Exclusive Option Agreements, none of the assets of the Onshore Holdcos are to be transferred or otherwise disposed of without the prior written consent of Xikang WFOE. In addition, under the Exclusive Option Agreements, none of the Registered Shareholders may transfer or permit the encumbrance of or allow any guarantee or security to be created on any of her equity interests in our Onshore Holdcos without Xikang WFOE's prior written consent.

In the event that the Registered Shareholders receive any profit distribution or dividend from our Onshore Holdcos, the Registered Shareholders shall immediately pay such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to Xikang WFOE. If Xikang WFOE exercises this option, all or any part of the equity interests in our Onshore Holdcos acquired would be transferred to Xikang WFOE and the benefits of equity ownership would flow to Xikang WFOE and its shareholders.

Equity Pledge Agreements

As part of the Xikang Information Contractual Arrangements and the Xikang Medical Contractual Arrangements, (i) Xikang Information, Xikang WFOE and the Registered Shareholders entered into the equity pledge agreement dated May 18, 2021; (ii) Xikang Medical, Xikang WFOE and the Registered Shareholders entered into the equity pledge agreement dated May 18, 2021 (collectively, the "**Equity Pledge Agreements**"). Pursuant to the Equity Pledge Agreements, which contain similar terms and conditions, the Registered Shareholders unconditionally and irrevocably pledged all of the equity interests in the Onshore Holdcos to Xikang WFOE in order to guarantee Onshore Holdcos' and their respective Registered Shareholders' performance of obligations under the Exclusive Management Consultancy and Business Cooperation Agreements, Exclusive Option Agreements, the Loan Agreements and relevant Powers of Attorney (as defined below).

Under the Equity Pledge Agreements, the Registered Shareholders have agreed to unconditionally and irrevocably pledge all of their respective equity interests in the Onshore Holdcos to Xikang WFOE.

The pledges in respect of our Onshore Holdcos take effect upon completion of registration with the relevant administration for market regulation and shall remain valid until (i) the satisfaction of all contractual obligations of the Onshore Holdcos and the Registered Shareholders in full under the Exclusive Management Consultancy and Business Cooperation Agreements, Exclusive Option Agreements, the Loan Agreements and the Powers of Attorney, or (ii) the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreements, the Exclusive Option Agreements, the Loan Agreements and the Powers of Attorney, whichever is later.

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We have completed the registration of the Equity Pledge Agreements with the relevant PRC legal authority pursuant to the PRC Laws.

To further enhance our control over our Onshore Holdcos, our Company has taken measures to ensure that our Onshore Holdcos' register of shareholders of the Onshore Holdcos and share certificates of the Registered Shareholders are properly secured, within full control of Xikang WFOE, and cannot be used by the Onshore Holdcos except for the registration and change of registration procedure necessary for Onshore Holdcos' operation.

Loan Agreements

On May 18, 2021, (i) Xikang WFOE and the Registered Shareholders entered into a loan agreement in respect of the Xikang Information Contractual Arrangements; and (ii) Xikang WFOE and the Registered Shareholders entered into a loan agreement in respect of the Xikang Medical Contractual Arrangements (collectively, the "**Loan Agreements**"). Pursuant to the Loan Agreements, which contain similar terms and conditions, Xikang WFOE provided interest-free loans in an aggregate amount of RMB10 million and RMB100,000 to the Registered Shareholders for their investments in Xikang Information and Xikang Medical, respectively.

Pursuant to the Loan Agreements, upon repayment of the loans, the Registered Shareholders shall transfer their equity interests in the Onshore Holdcos to Xikang WFOE or its designated third party at a consideration equivalent to the amount of loans being repaid. The maturity date of the loans is on the twentieth anniversary of the date when the Registered Shareholders received the loans. The term of the loans may be extended with the consent of the parties. The loan must be repaid immediately under certain circumstances, including, among others, 30 days after receiving a written notice from Xikang WFOE requesting repayment of the loan.

Powers of Attorney

As part of the Xikang Information Contractual Arrangements and the Xikang Medical Contractual Arrangements, each of the Registered Shareholders has executed a power of attorney on May 18, 2021 (collectively, the "**Powers of Attorney**"). Each of the Registered Shareholders irrevocably appointed Xikang WFOE (or any person designated by Xikang WFOE, provided that this person does not have a conflict of interest with Xikang WFOE or its parent companies) as their exclusive agent and attorney to act on their behalf on all matters concerning the Onshore Holdcos and to exercise all of their rights as a registered shareholder of the Onshore Holdcos. These rights include: (i) the right to propose to convene and attend shareholders' meetings and to execute shareholders' resolutions and meeting minutes; (ii) the right to exercise all the shareholder's rights and the shareholder's voting rights in accordance with law and the constitutional documents of the Onshore Holdcos, including but not limited to the sale and transfer of any or all of the equity interests in the Onshore Holdcos; (iii) the right to file documents with the relevant registrar of companies; and (iv) the right to nominate and appoint the senior management of the Onshore Holdcos.

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Further, pursuant to the Powers of Attorney and to ensure that it does not give rise to a conflict of interest, each of the Registered Shareholders of the Onshore Holdcos irrevocably undertakes that:

- (i) the authorisations under the Powers of Attorney will not lead to any potential conflict of interests between Xikang WFOE and the Registered Shareholders; and
- (ii) if any conflict of interest occurs during the performance of the Contractual Arrangements, Xikang WFOE's interest shall take priority.

The Powers of Attorney remain effective as long as the Registered Shareholders remain shareholders of the Onshore Holdcos, unless Xikang WFOE requests to replace the appointed designee under the Powers of Attorney.

The articles of association of the Onshore Holdcos state that the shareholders, in a shareholders' meeting, have the power to approve its operating strategy and investment plan, appoint the executive director, and review and approve the annual budget and earning distribution plan. Therefore, through the irrevocable power of attorney arrangement, our Company and Xikang WFOE, can exercise effective control over Onshore Holdcos through shareholder votes and, through such votes, to also control the composition of the board of directors for Onshore Holdcos.

Spouse Undertakings

The spouse of each of the Registered Shareholders has signed two sets of letter of undertaking on May 18, 2021 (collectively, the "**Spouse Undertakings**") in respect of the Xikang Information Contractual Arrangements and the Xikang Medical Contractual Arrangements, respectively, to the effect, among others, that:

- (i) each spouse confirmed and agreed that the respective Registered Shareholders is entitled to deal with her own equity interests in the Onshore Holdcos in accordance with the Contractual Arrangements;
- (ii) each spouse confirmed that the respective Registered Shareholders may further amend or terminate the Contractual Arrangements without the need for authorization or consent by the spouse;
- (iii) each spouse will enter into all necessary documents and take all necessary actions to ensure the due performance of Contractual Arrangements as amended from time to time; and
- (iv) each spouse unconditionally and irrevocably waives any right or benefits on such equity interests and assets in accordance with applicable laws and confirms that he will not have any claim on such equity interests and assets; and he has not and does not intend to participate in the operation and management or other voting matters of the Onshore Holdcos.

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Other key terms thereunder

Dispute resolution

In the event of any dispute with respect to the interpretation or performance of the provisions, each of the Exclusive Management Consultancy and Business Cooperation Agreements, Exclusive Option Agreements, Loan Agreements and Equity Pledge Agreements stipulates: (i) that the parties shall negotiate in good faith to resolve the dispute, and (ii) in the event the parties fail to reach an agreement on the resolution of the dispute, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The seat of arbitration is Beijing. The arbitration award shall be final and binding on all parties.

The dispute resolution clause of each of the Contractual Arrangements also provides that, subject to the relevant laws of the PRC, (i) the arbitrator may award remedies over the shares or assets of our Onshore Holdcos, injunctive relief (e.g., for the conduct of business or to compel the transfer of assets) or order the winding up of the Onshore Holdcos, and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC (being the place of incorporation of our Onshore Holdcos) and the place where the principal assets of our Company or Onshore Holdcos are located, have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases.

However, our PRC Legal Advisor has advised that the tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Onshore Holdcos 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.

As a result of the above, if our Onshore Holdcos 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 section headed "Risk Factors – Risks Relating to Our Contractual Arrangements – We conduct our business operations in the PRC through the Consolidated Affiliated Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws" for details.

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Registered Shareholders, as if the successors were signing parties to the Contractual Arrangements and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. Under the PRC Civil Code (《中華人民共和國民法典》), the statutory successors include the spouse, children, parents, brothers, sisters, paternal

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grandparents and the maternal grandparents. In case of a breach, Xikang WFOE can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any inheritor of the Registered Shareholders shall inherit any and all rights and obligations of the Registered Shareholders under the Contractual Arrangements as a result of their loss of capacity, death, bankruptcy (if applicable), divorce, or under other circumstance which would affect their exercise of equity interest in the Onshore Holdcos, as if the inheritor was a signing party to such Contractual Arrangements.

Based on the foregoing, our PRC Legal Advisor is of the view that (i) the Contractual Arrangements provide protection to the Group even in the event of loss of capacity, death, bankruptcy (if applicable), or divorce of the Registered Shareholders; and (ii) the loss of capacity, death, bankruptcy (if applicable) or divorce of the Registered Shareholders would not affect the validity of the Contractual Arrangements, and Xikang WFOE may enforce its rights under the Contractual Arrangements against the successors of such shareholders.

Conflicts of interests

Each of the Registered Shareholders has given their irrevocable undertaking to the Powers of Attorney to address potential conflicts and interests that may arise in connection with the Contractual Arrangements. For further details, see “– Summary of the agreements under the Contractual Arrangements and other key terms thereunder – Powers of Attorney.”

Loss sharing

Under relevant PRC laws and regulations, neither our Company nor Xikang WFOE is legally required to share the losses of, or provide financial support to, our Onshore Holdcos. Further, our Onshore Holdcos are limited liability companies and shall be solely liable for their own debts and losses with assets owned by them.

Nevertheless, Xikang WFOE intends to provide continuous assistance to our Onshore Holdcos in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations through the Onshore Holdcos, which hold relevant PRC operational licenses and approvals, and their financial position and results of operations are consolidated into our Group’s financial statements under applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our Onshore Holdcos suffer losses.

However, the provisions in the agreements underlying the Contractual Arrangements are tailored to limit, to the greatest extent possible, the potential adverse effect on Xikang WFOE and our Company as a result of any loss suffered by our Onshore Holdcos, for instance:

- (i) under the Exclusive Option Agreements, the assets of our Onshore Holdcos are not to be transferred or otherwise disposed of without the prior written consent of our Company;

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- (ii) under the Exclusive Option Agreements, none of the Registered Shareholders may transfer or permit the encumbrance of or allow any guarantee or security to be created on any of her equity interests in our Onshore Holdcos without our Company's prior written consent;
- (iii) under the Exclusive Management Consultancy and Business Cooperation Agreements and Powers of Attorney, (i) without prior written consent of Xikang WFOE, our Onshore Holdcos shall not change or remove the members of the boards of directors of each of our Onshore Holdcos; (ii) Xikang WFOE has the right to appoint the directors, financial controllers and other senior managers of our Onshore Holdcos; (iii) Xikang WFOE has absolute control over the distribution of dividends or any other amounts to the shareholders of our Onshore Holdcos; (iv) Xikang WFOE has the right to periodically receive or inspect the accounts of our Onshore Holdcos; and (v) without the written consent of Xikang WFOE, none of the Onshore Holdcos shall enter into, among other things, an acquisition, disposal or dealings in assets, with a third party, that has a value higher than RMB500,000.

Liquidation

Pursuant to the Exclusive Management Consultancy and Business Cooperation Agreements and the Exclusive Option Agreements, the Registered Shareholders have undertaken to appoint a committee designated by Xikang WFOE as the liquidation committee upon the winding up of our Onshore Holdcos to manage their assets. However, in the event of a mandatory liquidation under PRC laws or as a result of insolvency, the provisions above may not be enforceable pursuant to PRC laws.

Insurance

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

Company's confirmation

As of the Latest Practicable Date, our Company had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the 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 the Relevant 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 relevant licenses made by sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

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LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

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

- (a) each of Xikang WFOE and the Consolidated Affiliated Entities is a duly incorporated and validly existing company, and their respective establishment is valid, effective and complies with the relevant PRC laws and regulations; each of Ms. Zong Wenhong and Ms. Wang Shuli is a natural person with full civil and legal capacity;
- (b) the parties to each of the Contractual Arrangements are entitled to execute the agreements and perform their respective obligations thereunder;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of Xikang WFOE or the Consolidated Affiliated Entities;
- (d) pursuant to Articles 146, 153 and 154 of the PRC Civil Code, a contract is void if the civil juristic act: (i) is performed by a person and another person based on a false expression of intent; (ii) is in violation of the mandatory provisions of laws or administrative regulations, unless such mandatory provisions do not lead to invalidity of such a civil juristic act; (iii) offends the public order or good morals; or (iv) is conducted through malicious collusion between a person who performs the act and a counterparty thereof and thus harms the lawful rights and interests of another person. The execution and performance of the Contractual Arrangements does not fall within any of the circumstances under which a contract may become null and void pursuant to the PRC Civil Code;
- (e) the parties to each 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 Xikang WFOE or their respective designee of their respective rights under the Exclusive Option Agreements to acquire all or part of the equity interests in the relevant Onshore Holdcos is subject to the approvals of and/or registration with the PRC regulatory authorities;
 - (ii) any share pledge contemplated under the Equity Pledge Agreements is subject to the registration with local administration bureau for market regulation; and
 - (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; and

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- (f) each of the Contractual Arrangements is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidation committee:
- (i) the Contractual Arrangements provide that any dispute shall be submitted to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The seat of arbitration is Beijing. They also provide that the arbitrator may award interim remedies over the shares or assets of the Onshore Holdcos or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the Onshore Holdcos; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) the PRC (being the place of incorporation of our Onshore Holdcos) and the place where the principal assets of our Company or Onshore Holdcos are located, have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. However, our PRC Legal Advisor has advised that 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 in the PRC; and
 - (ii) the Contractual Arrangements provide that the Registered Shareholders undertake to appoint a committee designated by Xikang WFOE as the liquidation committee upon the winding up of the Onshore Holdcos 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.

However, we have been advised by our PRC Legal Advisor that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. 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 of our PRC Legal Advisor.

Based on the above analysis and advice from our PRC Legal Advisor, 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 "Risk Factors – Risks Relating to Our Contractual Arrangements."

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DEVELOPMENT IN LEGISLATION ON FOREIGN INVESTMENT IN THE PRC

The Foreign Investment Law

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**FIL**”) was adopted at the Second Session of the Thirteenth National People’s Congress of the PRC on March 15, 2019 and came into force on January 1, 2020. The FIL replaced the former foreign investment legal foundation in the PRC consisting of three laws: the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-Invested Enterprise Law. On December 26, 2019, the State Council released the Implementation Rules to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**FIL Implementing Regulations**”), which took effect on January 1, 2020. For details of the FIL and the FIL Implementing Regulations, see “Regulatory Overview – Regulations Relating to Foreign Investment.”

Impact and consequences of the FIL

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in the PRC. The FIL, unlike the discussion draft of the proposed Foreign Investment Law of the People’s Republic of China (《中華人民共和國外國投資法(草案徵求意見稿)》) published in January 2015 by the MOFCOM, does not explicitly prohibit or restrict a foreign investor to rely on contractual arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. Notwithstanding the above, the FIL stipulates that foreign investment includes “investment by foreign investors through such other methods under laws, administrative regulations or provisions prescribed by the State Council.” There is the possibility 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 our Contractual Arrangements would be deemed in violation of foreign investment laws and regulations and how our Contractual Arrangements would then be handled by relevant PRC authorities. Therefore, there is no guarantee that our 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. See “Risk Factors – Risks Relating to our Contractual Arrangements – Our current corporate structure and business operations may be affected by the Foreign Investment Law” for further details of risks relating to the FIL. In any event, we will take reasonable steps in good faith to seek compliance with the FIL.

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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 as and when they arise;
- (ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- (iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Xikang WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of Financial Results of the Consolidated Affiliated Entities

Under the Exclusive Management Consultancy and Business Cooperation Agreement, it was agreed that, in consideration of the services provided by Xikang WFOE, the Onshore Holdcos shall pay services fees to Xikang WFOE. The services fee shall equal to the Onshore Holdcos' consolidated profit before tax excluding the service fees thereunder, after deducting any accumulated losses of the Consolidated Affiliated Entities from the preceding fiscal year, and any costs, expenses, tax and other statutory contribution in relation to the respective fiscal year. Xikang WFOE has the right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities.

In addition, under the Exclusive Option Agreement, Xikang WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders as Xikang WFOE's prior written consent is required before any distribution can be made. If the Registered Shareholders receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the services fees under the Exclusive Management Consultancy and Business Cooperation Agreement, such income, profit distribution or dividend to Xikang WFOE or any other person designated by Xikang WFOE to the extent permitted under applicable PRC laws.

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As a result of the Contractual Arrangements among Xikang WFOE, the Onshore Holdcos and the Registered Shareholders, Xikang WFOE is able to effectively control, recognize and receive substantially all the economic benefit of the business and operations of the Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of the Consolidated Affiliated Entities is disclosed in Note 11 to the Accountant's Report set out in Appendix I.