
CONTRACTUAL ARRANGEMENTS

PRC REGULATORY BACKGROUND

Overview

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (the “**Negative List**”) and the Catalog of Industries for Encouraging Foreign Investment (2019 Version) (the “**Encouraging Catalog**”), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalog divides industries into four categories in terms of foreign investment, namely, “encouraged”, “restricted”, “prohibited” and “permitted” (the last category of which includes all industries not listed under the “encouraged”, “restricted” and “prohibited” categories). As advised by our PRC Legal Adviser, a summary of our business/operation that is subject to foreign investment restriction or prohibition in accordance with the Negative List, the Encouraging Catalog and other applicable PRC laws and on certain interviews with governmental authorities is set out below (the “**Relevant Businesses**”):

Categories	Our business/operation
“Restricted”	
Value-added telecommunication services business	<p>The principal business of Jiangsu Jingdong Hongyuan, Jingdong Pharmacy Taizhou and Jingdong Pharmacy Qingdao involves or will involve (as applicable) provision of telecommunication and information services through mobile apps and websites and/or for online data processing and transaction processing services, which falls within the scope of “value-added telecommunication service” under the Telecommunications Regulations (《電信條例》). According to the applicable PRC laws, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting value-added telecom business (excluding e-commerce, domestic multiparty communication services, store-and-forward services and call center services).</p> <p>Jiangsu Jingdong Hongyuan and Jingdong Pharmacy Taizhou each holds a value-added telecommunications business operating license for provision of Internet information services (the “ICP License”) and for online data processing and transaction processing services (the “EDI License”) issued by Jiangsu Province Communication Administration (江蘇省通信管理局), respectively, and Jingdong Pharmacy Qingdao holds the ICP license and intends to apply for the EDI License. Jiangsu Jingdong Hongyuan plans to engage in online marketplace services for third-party healthcare products merchants; Jingdong Pharmacy Taizhou primarily engages in online marketplace services for third-party prescription drugs merchants; Jingdong Pharmacy Qingdao plans to provide online marketplace services for third-party OTC drugs merchants. As confirmed by the PRC Legal Adviser, given that these entities provide or plans to provide online marketplace services for third-party merchants and therefore fall under the scope of value-added telecommunication service businesses, they are required to hold the ICP License and EDI License which are subject to foreign ownership restrictions.</p>
“Prohibited”	
Online Hospital Services Business	<p>As advised by our PRC Legal Adviser, as the PRC Internet healthcare industry is new and evolving, the Negative List lacks clear guidance on the categorization of operation of “online hospital services” in terms of foreign investment restriction. However, according to the Provisional Measures for the Administration of Medical Institutions in the Form of Sino-foreign Equity or Contractual Joint Venture (《中外合資合作醫療機構管理暫行辦法》), operation of “medical institutions” falls within the “restricted category” and foreign investors are not allowed to hold more than 70% equity interests in a “medical institution”. Our Yinchuan JD Online Hospital has a medical institution</p>

CONTRACTUAL ARRANGEMENTS

Categories

Our business/operation

practicing license (“**Medical Institution Practicing License**”) issued by Yinchuan Municipal Bureau of Administrative Services (銀川市審批服務管理局). The license stipulates that the licensed diagnostic and treatment services shall be provided via the Internet. Our PRC Legal Adviser has advised that it remains uncertain whether the foreign investment restrictions applicable to “medical institutions” would apply to our Yinchuan JD Online Hospital.

With respect to the foreign investment restriction in online hospital services, the respective PRC legal advisers of the Company and of the Joint Sponsors conducted verbal consultation with a senior officer of the Health Commission of Yinchuan (銀川市衛生健康委員會). The authority verbally confirmed that (i) there is no applicable rule relating to foreign investments in entities that provide online hospital services available to foreign investors pursuant to which foreign investors can apply to pursue such investments in Yinchuan, and in practice all entities which provide online hospital services in Yinchuan are owned solely by PRC shareholders; and (ii) they will not accept or approve any application from a foreign-invested enterprise for establishing an entity providing online hospital services within its jurisdiction, and therefore any application from us for a Medical Institution Practicing License through a joint venture with a foreign-invested enterprise would be unsuccessful. Our PRC Legal Adviser is of the view that the authority is the regulatory authority of online hospital in Yinchuan city according to related regulations and is the competent authority to give relevant confirmation. As advised by our PRC Legal Adviser, pursuant to the Administrative Measures for Yinchuan Internet Hospitals (Trial Implementation) (《銀川互聯網醫院管理辦法(試行)》), the Health Commission of Yinchuan (銀川市衛生健康委員會) is the regulatory authority of the medical institutions in Yinchuan city. Meanwhile, according to the Measures for the Administration of Internet Diagnosis and Treatment (for Trial Implementation) (《互聯網診療管理辦法(試行)》), the local level health authorities are responsible for the regulation of online hospital operations within its jurisdiction. Therefore, as advised by our PRC Legal Adviser, the interviewed senior officer of the Health Commission of Yinchuan (銀川市衛生健康委員會) is a competent person to provide the above confirmation. PRC legal advisers of the Company and of the Joint Sponsors have also conducted a verbal consultation with an officer of the Medical Administration Bureau of NHC (國家衛健委醫政醫管局), which is a government authority at the national level in the PRC, and who confirmed that (i) the Health Commission of Yinchuan (銀川市衛生健康委員會) is the competent authority to review and decide whether Yinchuan JD Online Hospital can obtain the Medical Institution Practicing License; (ii) the Medical Administration Bureau of NHC (國家衛健委醫政醫管局) will not interfere with the grant of the Medical Institution Practicing License to Yinchuan JD Online Hospital; and (iii) the Health Commission of Yinchuan (銀川市衛生健康委員會) is the competent authority to give above confirmation. Based on the foregoing, our PRC Legal Adviser is of the view that, (i) the Medical Administration Bureau of NHC (國家衛健委醫政醫管局) will not object to the above confirmation from the Health Commission of Yinchuan (銀川市衛生健康委員會), and (ii) in practice, foreign investors would be prohibited from holding equity interests in our Yinchuan JD Online Hospital. As advised by our PRC Legal Adviser, the NHC (國家衛健委) is the highest-ranking supervisory authority of the national medical institutions (including online hospitals) and is a supervisory authority of the local regulatory health commissions, and the Medical Administration Bureau of NHC (國家衛健委醫政醫管局), as the internal department of NHC, is responsible for making regulatory policies of medical institutions. Therefore, as advised by our PRC Legal Adviser, the interviewed

CONTRACTUAL ARRANGEMENTS

Categories

Our business/operation

official of the Medical Administration Bureau of NHC (國家衛健委醫政醫管局) is a competent person to provide the above regulatory confirmation.

For further details of the limitations on foreign ownership in PRC companies conducting the aforementioned business under PRC laws and regulations, please see the section headed “Regulations.”

Qualification requirements

Value-added telecommunication service business

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “**FITE Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in and a proven track record of operating value-added telecommunications businesses overseas (the “**Qualification Requirements**”). Enterprises engaged in value-added telecom business in the PRC with foreign investors that meet these requirements must obtain approvals from MIIT and/or its authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s previous telecommunications business licenses issued by the relevant local authorities, satisfactory proof of the Qualification Requirements and a business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC Legal Adviser has advised us that as of the Latest Practicable Date, (i) this guidance memorandum has no legal or regulatory effect under the PRC laws and (ii) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in China. We have taken the following measures to meet the Qualification Requirements:

- For the purposes of establishing and expanding our operations overseas, we are planning to incorporate or acquire one or more offshore entities to be engaged in value-added telecom services outside the PRC.
- We registered a number of domain names in various jurisdictions including jdhealth.hk, and has, through our affiliates, submitted for registration a number of trademarks

CONTRACTUAL ARRANGEMENTS

(including “京東健康” and “JDH”) which will (upon their successful registration) be licensed to us for our business operations.

- We are planning to construct an overseas website that will help potential overseas users to better understand our services and businesses.

The respective PRC legal advisers of the Company and of the Joint Sponsors conducted a verbal consultation with the relevant government authority, being the MIIT, during which the senior officer of the Information and Communication Bureau of the MIIT confirmed that (i) there is no set criteria for the Qualification Requirements and that steps such as those taken by us above may be generally deemed to fulfill the Qualification Requirement, however MIIT has discretion to decide whether our Group satisfies the Qualification Requirement according to its substantive examination, and (ii) there are substantial uncertainties as to whether ICP and EDI licenses can be obtained through any Sino-foreign equity joint venture or wholly-owned foreign investment entity even if the Qualification Requirements are fulfilled. Qualification Requirements will not be satisfied if the foreign entity without actual business intends to directly or indirectly acquire equity interests of ICP and EDI licenses holder. Our PRC Legal Adviser has confirmed that the officer of the MIIT consulted has the authority to provide such confirmation. Accordingly, subject to the discretion of the competent authority on whether the Group has fulfilled the Qualification Requirements, our PRC Legal Adviser is of the view that (a) it will not be approved if we intends to directly or indirectly acquire equity interests of our Consolidated Affiliates which are ICP and EDI licenses holders due to lack of relevant experience currently; (b) the above steps taken by us are reasonable and appropriate in relation to the Qualification Requirements as our Company has experience in providing value-added telecommunications services in overseas markets.

Our PRC Legal Adviser, the PRC legal adviser of the Joint Sponsors and the Company conducted a verbal consultation with an officer of the MIIT on October 28, 2020 who confirmed that, in the case of our Company, we are practically unable to obtain ICP and EDI licenses through any Sino-foreign equity joint venture or wholly-owned foreign investment entity even if we meet the Qualification Requirements. As advised by our PRC Legal Adviser, the MIIT is the issuing authority for applications of ICP and EDI licenses by Sino-foreign equity joint ventures and wholly-owned foreign investment entities. The official duties of the interviewed official include the formulation of regulatory policies in, and the regulation of, value-added telecommunication services (including the regulatory policies on applications for ICP and EDI licenses from Sino-foreign equity joint ventures and wholly-owned foreign investment entities) in the PRC. In light of the foregoing, our PRC Legal Adviser is of the view that the interviewed officer of MIIT is a competent person to give the above confirmation.

We will, as applicable and when necessary, disclose the progress of our overseas expansion plans and any updates to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the Listing. We will also make periodic inquiries with relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

Online sales of pharmaceutical products

In addition, Jingdong Pharmacy Qingdao holds a certain number of subsidiaries, which are primarily engaged in online sales of pharmaceutical products to individual consumers through the internet platform of Jingdong Pharmacy Qingdao and related offline services such as warehouse and

CONTRACTUAL ARRANGEMENTS

fulfillment services in different regions of China. Given the vast territory of China, it is necessary for Jingdong Pharmacy Qingdao to set up multiple subsidiaries to operate online services and related warehouses and provide other fulfillment services across different regions in China, in order to (i) ensure timely and cost-efficient delivery of the online pharmaceutical products business, and (ii) as advised by PRC Legal Adviser, ensure the compliance of the Group's business activities with the relevant legal requirements and effectively mitigate the risk of unlicensed operations. The revenue from the subsidiaries of Jingdong Pharmacy Qingdao (excluding Jingdong Pharmacy Taizhou which holds the ICP and EDI licenses) accounted for 0.8%, 5.0%, 6.2% and 11.8%, of the total revenue of our Group for each of the three years ended December 31, 2019 and six months ended June 30, 2020, respectively.

In order for our Group to provide online sales of pharmaceutical products (and related offline services such as warehouse and fulfillment services as noted above) in different regions of China through various subsidiaries of Jingdong Pharmacy Qingdao, those subsidiaries must each obtain the Pharmaceutical Operation License (藥品經營許可證). As advised by our PRC Legal Adviser, in order for those subsidiaries to obtain the Pharmaceutical Operation License (藥品經營許可證), an offline business premise must be established to operate sales of pharmaceutical products pursuant to the provisions of the Measures for the Administration of Pharmaceutical Operation License (《藥品經營許可證管理辦法》) and the Administrative Standard of Pharmaceutical Operating Quality (《藥品經營質量管理規範》).

In addition, according to the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services (《互聯網藥品交易服務審批暫行規定》), promulgated by CFDA on September 29, 2005 and effective since December 1, 2005, any enterprise engaging in online pharmaceutical product trading services to individual consumers shall obtain the Qualification Certificate for Providing Internet Pharmaceutical Dealing Service (互聯網藥品交易服務資格證書) (“**Qualification Certificate**”). Moreover, pursuant to the Notice on the Implementation of the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services (關於貫徹執行<互聯網藥品交易服務審批暫行規定>有關問題的通知) issued by CDFA on October 25, 2005, with respect to an enterprise who has obtained the Qualification Certificate, the subsidiaries and/or branches of such enterprise shall be entitled to engage in online pharmaceutical product trading services to individual consumers on the websites of such enterprise, with no need to file any additional application to the competent governmental authority. However, the administrative approval process to approve new Qualification Certificates have been canceled since September 2017, and the Standing Committee of the National People's Congress promulgated the Drug Administration Law in August 2019 and effective since December 2019. The specific measures for online pharmaceutical product trading services under the Drug Administration Law are to be formulated by the National Medical Products Administration (國家藥品監督管理局) in conjunction with the National Health Commission (國家衛生健康委員會) of the PRC and other relevant government departments. As advised by our PRC Legal Adviser, the relevant departments have not yet designated specific measures for the online pharmaceutical product trading services in accordance with the Drug Administration Law.

CONTRACTUAL ARRANGEMENTS

In light of the above and based on a verbal consultation conducted by our PRC Legal Adviser and the PRC legal advisers of the Joint Sponsors with the relevant officer of the second branch in charge of regional inspection of Shandong Province Medical Products Administration (山東省藥品監督管理局):

(i) although the administrative approval process to approve new Qualification Certificates has been canceled, the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services has not been repealed, and the competent governmental authority will still in practice regulate the business of online pharmaceutical product trading services in accordance with the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services;

(ii) wholly-owned subsidiaries of Jingdong Pharmacy Qingdao are entitled to rely on the Qualification Certificate held by Jingdong Pharmacy Qingdao when providing online pharmaceutical product trading services to individual consumers; and

(iii) enterprises not legally wholly-owned by Jingdong Pharmacy Qingdao shall not be entitled to rely on the Qualification Certificate held by Jingdong Pharmacy Qingdao, and shall not engage in online pharmaceutical product trading services to individual consumers.

Therefore, as advised by our PRC Legal Adviser, to maintain Jingdong Pharmacy Qingdao's operation of online pharmaceutical product trading services to individual consumers in compliance with applicable PRC laws and to allow Jingdong Pharmacy Qingdao's wholly-owned subsidiaries to operate online pharmaceutical product trading services by relying on the Qualification Certificate held by Jingdong Pharmacy Qingdao, Jingdong Pharmacy Qingdao's subsidiaries cannot be separated from Jingdong Pharmacy Qingdao which holds an ICP License and is subject to foreign ownership restrictions. As advised by our PRC Legal Adviser, Shandong Province Medical Products Administration (山東省藥品監督管理局) is the regulatory authority of pharmaceutical enterprises (including enterprises engaged in online drug sales) in Shandong province and is also the issuing authority of Qualification Certificate held by the Jingdong Pharmacy Qingdao. The second branch in charge of regional inspection of Shandong Province Medical Products Administration, as the internal department of Shandong Province Medical Products Administration, is responsible for the supervision of pharmaceutical enterprises in Qingdao and several other cities. In light of the foregoing, our PRC Legal Adviser is of the view that the interviewed officer of the second branch in charge of regional inspection of Shandong Province Medical Products Administration is a competent person to provide the above confirmation. We undertake that, in the event that (and to the extent permitted under applicable PRC laws and regulations) new regulations or measures relating to online pharmaceutical product trading services to individual consumers are promulgated in the PRC, and pursuant to which the WFOE or its wholly owned subsidiaries have formally obtained approval or relevant qualifications to engage in such businesses, such subsidiaries will be transferred from the Contractual Arrangements to the WFOE (or its wholly owned subsidiaries). We will periodically consult our PRC legal advisers and the relevant government authorities with respect to the status of any applicable new regulations relating to online pharmaceutical product trading services.

OUR CONTRACTUAL ARRANGEMENTS

Overview

Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations as outlined above, we do not directly own any equity interests in our Consolidated Affiliated Entities. The Onshore Holdco is held by

CONTRACTUAL ARRANGEMENTS

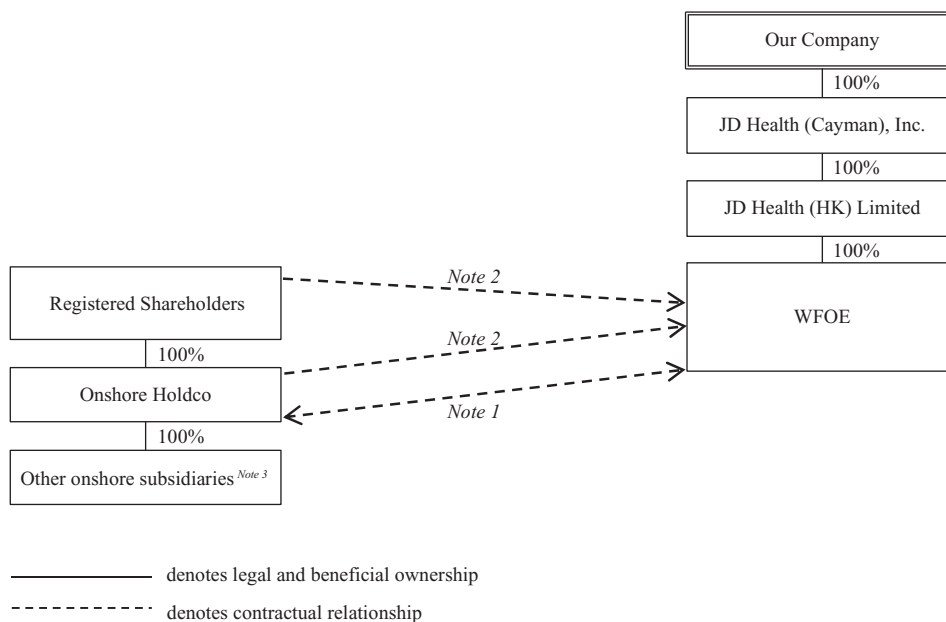
Richard Qiangdong Liu (劉強東) as to 45%, Yayun Li (李姪雲) as to 30% and Pang Zhang (張雱) as to 25%.

In view of the aforementioned PRC regulatory background, after consultation with our PRC Legal Adviser, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities 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 all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOE, on the one hand, and the Onshore Holdco (which holds the remaining Consolidated Affiliated Entities) and its shareholders, on the other. The Contractual Arrangements allow the results of operations and assets and liabilities of the Consolidated Affiliated Entities to be consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group.

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. Pursuant to the Reorganization, in replacement of certain of the previous contractual arrangements (which were entered into on June 11, 2019 and April 3, 2020), the Contractual Arrangements currently in effect were entered into on September 17, 2020, whereby the WFOE have acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. The revenue contribution of all the Consolidated Affiliated Entities to our Group, taking into account all of their respective businesses with or without foreign investment restrictions under PRC laws, amounted to approximately 18.5%, 21.7%, 23.1% and 25% for the three years ended December 31, 2019 and six months ended June 30, 2020, respectively. 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 between the WFOE and our Consolidated Affiliated Entities; (ii) by entering into the Exclusive Business Cooperation Agreement with the 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 Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

CONTRACTUAL ARRANGEMENTS



Notes:

1. The WFOE provides business support, technical and consulting services in exchange for service fees from the Onshore Holdco. Please refer to “— Our Contractual Arrangements—Exclusive Business Cooperation Agreement”.
2. The Registered Shareholders executed the exclusive option agreement in favor of the WFOE, for the acquisition of all or part of the equity interests in and all or part of the assets in the Onshore Holdco. See section headed “—Our Contractual Arrangements—Exclusive Option Agreement”.
The Registered Shareholders executed shareholders’ rights entrustment agreement and the powers of attorney in favor of the WFOE, for the exercise of all shareholders’ rights in the Onshore Holdco. See section headed “—Our Contractual Arrangements—Shareholders’ Rights Entrustment Agreement and Powers of Attorney”.
The Registered Shareholders granted security interests in favor of the WFOE, over the entire equity interests in the Onshore Holdco. See section headed “—Our Contractual Arrangements—Share Pledge Agreement”.
3. Onshore Holdco holds, among others, 100% of the equity interests of Yinchuan JD Online Hospital and Jiangsu Jingdong Hongyuan. Onshore Holdco also holds 100% of the equity interest of Jingdong Shanyuan (Qingdao) E-commerce Co., Ltd. (京東善元(青島)電子商務有限公司), which holds 100% of the equity interest of Jingdong Pharmacy Qingdao. Jingdong Pharmacy Qingdao holds, among others, 100% of the equity interests of Jingdong Pharmacy Taizhou.

Circumstances under which we will unwind the Contractual Arrangements

Our Group will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the operation of our online retail pharmacy business and online hospital services 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 grants ICP License, EDI License and the Medical Institution Practicing License for online hospital services, as applicable, to sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

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 Business Cooperation Agreement

The Onshore Holdco entered into an exclusive business cooperation agreement with the WFOE on September 17, 2020 (the “**Exclusive Business Cooperation Agreement**”), pursuant to which the

CONTRACTUAL ARRANGEMENTS

Onshore Holdco agrees to engage WFOE as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment leasing, market consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Under these arrangements, the service fees, subject to the WFOE's adjustment, are equal to all of the net profit of Consolidated Affiliated Entities. The WFOE may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Consolidated Affiliated Entities from previous financial periods, which will be wired to the designated account of the WFOE upon issuance of payment notification by the WFOE. The WFOE enjoys all the economic benefits derived from the businesses of Consolidated Affiliated Entities and bears the relevant portion of the business risks of the Onshore Holdco. If the Onshore Holdco runs into financial deficit or suffers severe operation difficulties, the WFOE will provide financial support to the Onshore Holdco.

Intellectual property rights are developed during the normal course of business of the Onshore Holdco and its subsidiaries. Pursuant to the Exclusive Business Cooperation Agreement, the WFOE will have the exclusive and proprietary rights to all intellectual properties developed by the Onshore Holdco and its subsidiaries, given that the WFOE provides consultation services to the Onshore Holdco and its subsidiaries during the term of the Exclusive Cooperation Agreement. Part of the economic benefits generated by the Onshore Holdco and its subsidiaries will be intellectual properties developed or created during the normal business operation of the Onshore Holdco and its subsidiaries. Though we do not intend to transfer any existing intellectual property rights held by the Onshore Holdco to the WFOE, the Onshore Holdco is required under the Contractual Arrangements to obtain the WFOE's prior written consent before they transfer, assign or dispose of any of the intellectual properties to any third party.

Unless otherwise terminated early by the WFOE, the Exclusive Business Cooperation Agreement will remain effective unless terminated in the event that (a) the entire equity interests held by the Registered Shareholders in the Onshore Holdco or the entire assets of the Onshore Holdco have been transferred to the WFOE; (b) in accordance with the other provisions of the Exclusive Business Cooperation Agreement.

Exclusive Option Agreement

The Onshore Holdco and the Registered Shareholders entered into an exclusive option agreement with the WFOE dated September 17, 2020 (the "**Exclusive Option Agreement**"), pursuant to which the WFOE (or our Company or any subsidiary of our Company, the "designee") is granted an irrevocable and exclusive right to purchase all of the equity interest in and/or assets of the Onshore Holdco for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Registered Shareholders and/ or the Onshore Holdco shall return any amount of purchase price they have received to the WFOE or its designee. At the WFOE's request, the Registered Shareholders will promptly and unconditionally transfer their respective equity interests in and/or the relevant assets of the Onshore Holdco to the WFOE (or its designee) after the WFOE exercises its purchase right. Unless otherwise terminated early by the WFOE through written notice, the Exclusive Option Agreement will remain effective until when all the purchased equity interests are transferred to the WFOE and/or the designee and the WFOE and

CONTRACTUAL ARRANGEMENTS

its subsidiaries have the right to legally conduct the business of the Onshore Holdco according to the PRC law.

In order to prevent the flow of the relevant assets and value of the Onshore Holdco and its subsidiaries to the Registered Shareholders, during the term of the Exclusive Option Agreement, the Onshore Holdco is not allowed to, and shall procure its subsidiaries not to, sell, transfer, mortgage or otherwise dispose of any of its assets (exceeding the value of RMB1 million) without the prior written consent of the WFOE. In addition, the Registered Shareholders are not allowed to request for any distributions, gains or other form of profits sharing and should forgo such distributions, gains or any other form of profits sharing within the scope permitted by the PRC law. In the event that the Registered Shareholders receive any distribution from the Onshore Holdco and/or its subsidiaries and subject to the PRC laws, the Registered Shareholders must immediately pay or transfer such distribution to the WFOE (or its designee). If the WFOE exercises its purchase right, all or any part of the equity interests in and/or assets of the Onshore Holdco acquired would be transferred to the WFOE and the benefits of equity ownership and/or assets, as applicable, would flow to us and our Shareholders.

As provided in the Exclusive Option Agreement, without the prior written consent of the WFOE, the Onshore Holdco shall not, and shall procure its subsidiaries not to, among other things, (i) sell, transfer, pledge or dispose of in any manner any of its assets for a value more than RMB1 million; (ii) execute any material contract for a value more than RMB1 million, except any contracts in the ordinary course of business and any contracts entered into with any members of our Group; (iii) provide any loan, financial support, pledge or guarantees in any form to any third party, or allow any third party create any pledge or other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business of the Onshore Holdco or not disclosed and consented to by the WFOE; (v) enter into any consolidation or merger with any third party, or acquire or invest in any third party; (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. The Exclusive Option Agreement provides that the Registered Shareholders and the Onshore Holdco shall procure the subsidiaries of the Onshore Holdco to comply with the above undertaking as if they are parties to the Exclusive Option Agreement. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and us in the event of any loss suffered from the Onshore Holdco and/or its subsidiaries can be limited to a certain extent.

Loan Agreement

Pursuant to the loan agreement dated September 17, 2020 between the WFOE and the Registered Shareholders (the “**Loan Agreement**”), the WFOE made loans in an aggregate amount of RMB1 million to the Registered Shareholders solely for the capitalization of the Onshore Holdco. Pursuant to the Loan Agreement, the Registered Shareholders can only repay the loans by the sale of all their equity interest in the Onshore Holdco to the WFOE or its designated person. The Registered Shareholders must sell all of their equity interests in the Onshore Holdco to the WFOE or its designated person and pay all of the proceeds from sale of such equity interests or the maximum amount permitted under PRC law to the WFOE. In the event that Registered Shareholders sell their equity interests to the WFOE or its designated person with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to the WFOE as the loan interest. The maturity date of the loans is on the tenth anniversary of the date when the Registered Shareholders received the loans and paid the

CONTRACTUAL ARRANGEMENTS

amount as capital contribution to the Onshore Holdco. The term of the loans will be extended automatically for an additional 10 years, unless the WFOE objects, for an unlimited number of times. The loan must be repaid immediately under certain circumstances, including, among others, (i) if any other third-party claims against Registered Shareholders for an amount more than RMB100,000 and the WFOE has reasonable ground to believe that the shareholders are unable to repay the claimed amount, (ii) if a foreign investor is permitted to hold majority or 100% equity interest in the Onshore Holdco and the WFOE elects to exercise its exclusive purchase option, or (iii) if the loan agreement, relevant share pledge agreement or exclusive option agreement terminates for cause not attributable to the WFOE or is deemed to be invalid by a court.

Shareholders' Rights Entrustment Agreement and Powers of Attorney

Pursuant to the shareholder's rights entrustment agreement entered into among the Registered Shareholders, the WFOE and the Onshore Holdco on September 17, 2020 (the "**Shareholders' Rights Entrustment Agreement**"), and the irrevocable power of attorney executed by each of the Registered Shareholders on the same day (the "**Power of Attorney**"), whereby the Registered Shareholders appointed the WFOE or a director of its offshore holding company or his or her successor (including a liquidator replacing the WFOE's director) as their exclusive agent and attorney to act on their behalf on all matters concerning the Onshore Holdco and to exercise all of its rights as a registered shareholder of the Onshore Holdco. These rights include (i) the right to propose, convene and attend shareholders' meetings; (ii) the right to sell, transfer, pledge or dispose of shares; (iii) the right to exercise shareholders' voting rights; and (iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of the Onshore Holdco. The authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of the Onshore Holdco on behalf of the Registered Shareholders. The Registered Shareholders have each undertaken to transfer all assets obtained after the winding up of the Onshore Holdco to the WFOE at nil consideration or the lowest price permissible by the then applicable PRC laws. As a result of the Shareholders' Rights Entrustment Agreement and the Powers of Attorney, we, through the WFOE, are able to exercise management control over the activities that most significantly impact the economic performance of the Onshore Holdco.

The Shareholders' Rights Entrustment Agreement also provided that, in order to avoid potential conflicts of interest, where the Registered Shareholders are officers or directors of our Group, the powers of attorney are granted in favor of other unrelated officers or the Directors of our Company.

The Shareholders' Rights Entrustment Agreement and the Powers of Attorney shall automatically terminate once the WFOE (or any member of our Group other than the Onshore Holdco and their respective subsidiaries) directly holds the entire equity interests in and/or the entire assets of the Onshore Holdco once permitted under the then PRC laws and the WFOE (or its subsidiaries) is allowed to conduct the Relevant Businesses under the then PRC laws, following which the WFOE is registered as the sole shareholder of the Onshore Holdco.

Share Pledge Agreement

The Onshore Holdco, the Registered Shareholders and the WFOE entered into a share pledge agreement on September 17, 2020 (the "**Share Pledge Agreement**"). Under the Share Pledge Agreement, the Registered Shareholders will pledge as first charge all of their respective equity

CONTRACTUAL ARRANGEMENTS

interests in the Onshore Holdco to the WFOE as collateral security for any or all of their payments due to the WFOE and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement, the Loan Agreement and the Powers of Attorney. The Share Pledge Agreement will not terminate until (i) all obligations of the Onshore Holdco and the Registered Shareholders are satisfied in full; (ii) the WFOE exercises its exclusive option to purchase the entire equity interests held by the Registered Shareholders in the Onshore Holdco and/or the entire assets of the Onshore Holdco pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws; (iii) the WFOE exercises its unilateral and unconditional right of termination; or (iv) the agreement is required to be terminated in accordance with applicable PRC laws. In addition, under the Exclusive Option Agreement, none of the Registered Shareholders may transfer or permit the encumbrance of any of their equity interests in and the relevant assets of the Onshore Holdco (including any equity interests in and the relevant assets of the subsidiaries of the Onshore Holdco) without the WFOE's prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, the WFOE is entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of the Onshore Holdco, which further strengthens the protection of the WFOE's interests over the Onshore Holdco under the Contractual Arrangements. Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to the WFOE's satisfaction within 30 days upon being notified by the WFOE, the WFOE may demand that the Registered Shareholders and/or the Onshore Holdco immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to the WFOE. The pledges under the Share Pledge Agreement has been registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

Other key terms thereunder

Dispute resolution

Each of the Contractual Arrangements stipulates that the parties thereto shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions of any such Contractual Arrangements. In the event the parties fail to resolve such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the Beijing Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

Each of the Contractual Arrangements also provides that (i) the arbitral tribunal may award remedies over the equity interests, assets or property interest of the Onshore Holdco, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the Onshore Holdco; and (ii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and other jurisdiction (being the place of domicile of the Onshore Holdco and where the principal assets of the Onshore Holdco or the WFOE are located) also have jurisdiction for the grant or enforcement of the arbitral award and the interim remedies against the shares or property interest of the Onshore Holdco.

CONTRACTUAL ARRANGEMENTS

However, our PRC Legal Adviser has advised that (i) a tribunal normally would not grant such kind of injunctive relief or winding up order of the Onshore Holdco under PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and (iii) even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that our Consolidated Affiliated Entities, the Onshore Holdco 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. Please refer to the section headed “Risk Factors—Risks Related to Our Corporate Structure—We rely on Contractual Arrangements with our Onshore Holdco and its shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control” of this document 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. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, the 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 death, loss of capacity, marriage, divorce, bankruptcy or under other circumstance which would affect their exercise of equity interest in the Onshore Holdco, as if the inheritor was a signing party to such Contractual Arrangements.

According to the terms of the Exclusive Option Agreement, each of the Registered Shareholders has undertaken, in the event of death or any other event which causes the inability of the shareholder to perform their day-to-day obligations including bankruptcy, marriage or divorce, to transfer all of the equity interests, including right and obligations, in the Onshore Holdco, held by them without consideration to the WFOE or an individual or legal entity designated by the WFOE under applicable PRC law.

In addition, the spouse of each of Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) executes an irrevocable undertaking on September 17, 2020, whereby they expressly and irrevocably acknowledge and undertake that (i) any equity interests held by Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李婭雲) in the Onshore Holdco do not fall within the scope of their communal properties; (ii) they will not have any claim on the interests of the Onshore Holdco obtained through the Contractual Arrangements; (iii) they have never participated and will not participate in the operation or management of the Onshore Holdco.

Based on the foregoing, our PRC Legal Adviser is of the view that (i) the Contractual Arrangements provide protection to us even in the event of loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholders; and (ii) loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholders would not affect the

CONTRACTUAL ARRANGEMENTS

validity of the Contractual Arrangements, and the WFOE can enforce its rights under the Contractual Arrangements against the successors of such shareholders.

Arrangements to address potential conflicts of interest

Each of the Registered Shareholders has given their irrevocable undertakings in the Shareholders' Rights Entrustment Agreement which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the sub-paragraph headed "—Shareholders' Rights Entrustment Agreement and the Powers of Attorney" above.

Loss sharing

None of the agreements constituting the Contractual Arrangements provides that our Company or the WFOE is obligated to share the losses of the Onshore Holdco, but if the Onshore Holdco suffers any losses or material difficulties of business, the WFOE will provide financial support as permitted under PRC laws at its discretion to the Onshore Holdco under the terms of the Exclusive Business Cooperation Agreement. Further, the Onshore Holdco is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or the WFOE is not expressly required to share the losses of the Onshore Holdco or provide financial support to the Onshore Holdco. Despite the foregoing, given that we conduct the Relevant Businesses in the PRC through the Consolidated Affiliated Entities which hold the requisite PRC license and approvals and that the Onshore Holdco's results of operations and assets and liabilities are consolidated into our results of operations and assets and liabilities under the applicable accounting principles, our business, financial condition and results of operations would be adversely affected if the Consolidated Affiliated Entities suffered losses.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by PRC laws, the Onshore Holdco shall sell all of its assets, to the extent permitted by PRC laws, to the WFOE or another qualifying entity designated by the WFOE, at the lowest selling price permitted by applicable PRC laws. Any obligation for the WFOE to pay the Onshore Holdco as a result of such transaction shall be waived by the Onshore Holdco and any profits arising from the above transactions shall be paid to the WFOE or the qualifying entity designated by the WFOE in partial satisfaction of the service fees under the Exclusive Business Cooperation Agreement, as applicable under the then current PRC laws. Accordingly, in the event of winding up of the Onshore Holdco, a liquidator may seize the relevant assets of the Onshore Holdco through the WFOE based on the Contractual Arrangements for the benefit of our creditors/shareholders.

Termination

Each of the Contractual Arrangements provides that the WFOE and the Onshore Holdco shall terminate the Contractual Arrangements once the WFOE holds the entire equity interests in and/or the entire assets of the Onshore Holdco under the then PRC laws and if the WFOE or its subsidiaries are able to conduct the Relevant Businesses directly as a result of being permitted to do so under the then PRC laws and the WFOE is registered as the sole shareholder of the Onshore Holdco. In addition, pursuant to the Exclusive Business Cooperation Agreement, the WFOE has the unilateral right to terminate these agreements at any time by providing 30 days' advance written notice to the Onshore Holdco.

CONTRACTUAL ARRANGEMENTS

Insurance

We do not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Company's 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

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

- (i) each of the WFOE and the Onshore Holdco is an independent legal entity which is duly established, and their respective establishment is valid, effective and complies with the relevant PRC laws;
- (ii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto and none of the them would be deemed as “concealment of illegal intentions with a lawful form” and void under Contract Law of the PRC;
- (iii) none of the agreements under the Contractual Arrangements violates any provisions of respective articles of association of the WFOE, the Consolidated Affiliated Entities;
- (iv) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that (a) the pledges under the Share Pledge Agreement are required to be registered with the relevant local SAMR; (b) the exercise of the option by WFOE of its right under Exclusive Option Agreement to all or part of the equity interests in our Onshore Holdco is subject to the approvals of, consent of, filing with and/or registration with the PRC governmental authorities;
- (v) the Contractual Arrangements are not in violation of applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of the Onshore Holdco, injunctive relief and/or winding up of the Onshore Holdco, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in the Onshore Holdco in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and
- (vi) the consummation of the contemplated listing of our shares on the Stock Exchange is not a violation of the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which was adopted by six PRC regulatory agencies, including MOFCOM and the China Securities Regulatory Commission, and effective since September 2006 and amended on June 22, 2009.

CONTRACTUAL ARRANGEMENTS

However, we have been advised by our PRC Legal Adviser 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 Adviser.

Furthermore, in August 2020, the respective PRC Legal Advisers of the Company and of the Joint Sponsors verbally consulted the MIIT, the Shandong Province Medical Products Administration (山東省藥品監督管理局), the Shandong Provincial Department of Commerce (山東省商務廳) and the Health Commission of Yinchuan (銀川市衛生健康委員會). Our PRC Legal Adviser has advised us that (i) all of them are competent government authorities for the Company's relevant business activities; and (ii) based on such verbal consultations, the adoption of the Contractual Arrangements would not be challenged or subject to penalty for any violation of relevant PRC Laws and regulations. Our PRC Legal Adviser is of the view that the use of the Contractual Arrangements does not constitute a breach of the relevant laws and regulations.

According to the verbal consultation with MIIT conducted by the respective PRC Legal Advisers of our Company and of the Joint Sponsors, (i) foreign investors are required to demonstrate they have a track record of good performance and operational experience in the value-added telecom business outside the PRC in order to apply for the ICP License and/or the EDI License; and (ii) if the foreign investors could not meet the Qualification Requirements, the MIIT will not approve the application for the ICP License and/or the EDI License. Our PRC Legal Adviser is of the view that MIIT is the competent authority to give the relevant confirmation in relation to PRC's telecommunication regulatory matters. Based on the verbal consultation with the MIIT, our PRC Legal Adviser has advised that in practice it is not feasible for the Onshore Holdco to apply for an ICP License through a sino-foreign joint venture.

Based on the above analysis and advice from our PRC Legal Adviser, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See the section headed "Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the Contractual Arrangements in relation to our Consolidated Affiliated Entities do not comply with PRC regulatory restrictions on foreign investment in 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."

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the section headed "Connected Transactions" of this document.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the National People's Congress approved the Foreign Investment Law which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Regulations on the Implementation of the Foreign Investment Law, which came into effect on January 1, 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture

CONTRACTUAL ARRANGEMENTS

Enterprise Law, the Sino-Foreign Cooperative Joint Ventures Enterprise Law and the Wholly Foreign Invested Enterprises Law to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of our Consolidated Affiliated Entities, by the WFOE through which we operate our business in the PRC. As advised by our PRC Legal Adviser, since contractual arrangements are not specified as foreign investment under 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”.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods”. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See “Risk Factors—Risks related to our Corporate Structure—Our current corporate structure and business operations may be affected by the 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:

1. 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;
2. our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
3. our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
4. our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual

CONTRACTUAL ARRANGEMENTS

Arrangements, review the legal compliance of the 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 operating entities

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by the WFOE, the Onshore Holdco shall pay services fees to the WFOE. The services fee shall equal to the Onshore Holdco's consolidated profit before tax excluding the service fee 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. The WFOE has the right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities.

In addition, under the Exclusive Option Agreement, the WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders as the 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 fee under the Exclusive Business Cooperation Agreement, such income, profit distribution or dividend to the WFOE or any other person designated by the WFOE to the extent permitted under applicable PRC laws.

As a result of the Contractual Arrangements between the WFOE, the Onshore Holdco and the Registered Shareholders, the 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 1.2 to the Accountants' Report set out in Appendix I.