

CONTRACTUAL ARRANGEMENTS

BACKGROUND

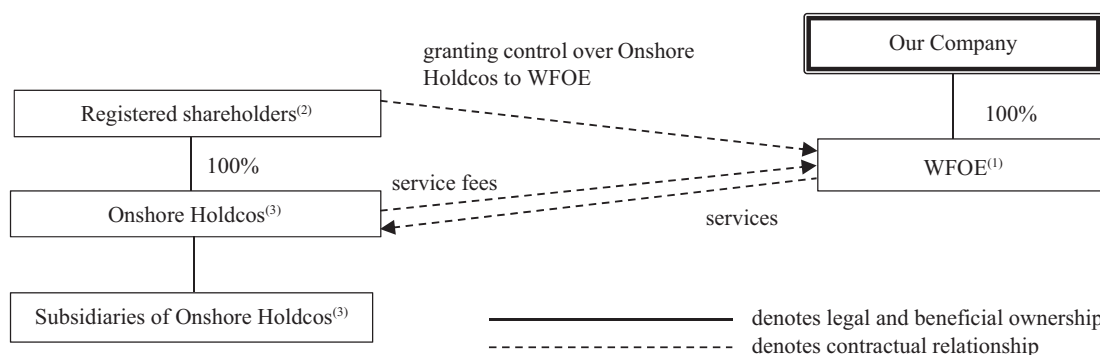
We operate certain businesses in Mainland China, including hosting and providing services through our Online Marketplace, and providing genetic testing services, which are subject to foreign investment restrictions (the “**Relevant Businesses**”).

As a result of the foreign investment restrictions, we operate our Relevant Businesses through the Consolidated Affiliated Entities under a variable interest entity structure. We do not directly own equity interest in the Consolidated Affiliated Entities, which are held by their respective registered shareholder(s). Instead, we control and consolidate the Consolidated Affiliated Entities through Contractual Arrangements. Under the Contractual Arrangements, all substantial and material business decisions of the Consolidated Affiliated Entities will be instructed and supervised by our Group, through our WFOE, and risks arising from the Consolidated Affiliated Entities’ business are also effectively borne by our Group as a result of these entities being treated as our controlled subsidiaries; accordingly, we are entitled to the economic benefits generated by the Consolidated Affiliated Entities to which the Onshore Holdcos are entitled through the Contractual Arrangements.

During each of the three financial years ended 31 December 2022, the revenue contribution of our Consolidated Affiliated Entities to our Group accounted for 6.22%, 4.99% and 5.23%, respectively.

OUR VIE STRUCTURE

The following diagram is a simplified illustration of our variable interest entity structure (the “**VIE Structure**”) under the Contractual Arrangements:



Notes:

- (1) WFOE is Guangzhou Sudaoyi Information Technology Co., Ltd. (廣州速道易信息科技有限公司).
- (2) The registered shareholders of Guangzhou Sudaoyi are Mr. Buzhen Zhang (as to 85.92%), Mr. Jiangwei Wang (as to 3.18%), Mr. Jiahao Shao (as to 0.92%), and Guangzhou Yaodao Information Technology Partnership (Limited Partnership), which is controlled by Mr. Buzhen Zhang (as to 9.98%). The registered shareholder of Guangzhou Yaobang is Mr. Buzhen Zhang. Mr. Wang and Mr. Shao are former directors of our Company and Pre-IPO Investors, and Mr. Wang is a director of Guangzhou Sudaoyi, with Mr. Wang and Mr. Shao being interested in 1.32% and 0.38% of our Company’s issued share capital as at the date of this document; see “History, reorganization and corporate structure” for further details.
- (3) The Onshore Holdcos and their subsidiaries are collectively our Consolidated Affiliated Entities. The Onshore Holdcos are Guangzhou Sudaoyi Information Technology Co., Ltd. (廣州速道易信息科技有限公司, “**Guangzhou Sudaoyi**”) and Guangzhou Yaobang Information Technology Co., Ltd. (廣州藥幫信息科技有限公司, “**Guangzhou Yaobang**”). The subsidiary of Guangzhou Sudaoyi is Henan Subiao Information Technology Co., Ltd. (河南速標信息科技有限公司, “**Henan Subiao**”). The subsidiaries of Guangzhou Yaobang are Guangzhou Yuewei Medical Laboratory Co., Ltd. (廣州閱微醫學檢驗所有限公司, “**Guangzhou Yuewei**”) and Guangzhou Spectrum Health Technology Co., Ltd. (廣州光譜健康科技有限公司, “**Guangzhou Spectrum**”). See “History, reorganization and corporate structure—Corporate structure” for further details.

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REASONS FOR OUR VIE STRUCTURE

Foreign investment activities in the PRC are mainly governed by 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 年版)》) (the “**Negative List**”) and the Catalogue of Industries for Encouraging Foreign Investment (2022 Version) (《鼓勵外商投資產業目錄 (2022年版)》) (collectively, the “**Investment Restrictions**”), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Investment Restrictions sets out a list of industries in which foreign investment is restricted or prohibited.

The following table summarises the main Investment Restriction to which the Relevant Businesses are subject:

Development and application of genes diagnosis and treatment technologies	<p><i>Operated by Guangzhou Yuewei</i></p> <p>Guangzhou Yuewei operates genetic testing services as part of the ClouDiagnos business, which fall into the development and application of genes diagnosis and treatment technologies and is prohibited from foreign investment according to the Negative List. This prohibited business primarily involves laboratory testing relating to, for example, genes, cells and molecular genetics, to assist in diagnostic testing and treatment research and development.</p>
Value-added telecommunications services	<p><i>Operated by Guangzhou Sudao, Henan Subiao, Guangzhou Yaobang and Guangzhou Spectrum</i></p> <p>Guangzhou Sudao operates our Online Marketplace on our Yaoshibang platform, which involves electronic data interchange and transaction processing (the “EDI”) services and internet content provider (the “ICP”) services. The ICP services require a value-added telecommunication service licence for such service scope (the “ICP Licence”) to operate and the EDI services require a value-added telecommunication service licence for such service scope (the “EDI Licence”) to operate. Guangzhou Sudao holds an EDI Licence and ICP Licence to operate these services. Henan Subiao, Guangzhou Yaobang and Guangzhou Spectrum operate our other online platforms, including our ClouDiagnos platform (光譜雲檢), which constitute ICP services; and each of these entities holds an ICP Licence to operate these services. EDI and ICP services constitute value-added telecommunications services, which require relevant licences to operate (including without limitation, ICP Licence and EDI Licence, collectively “VAT Licences”).</p> <p>Foreign investment in entities holding an ICP Licence is restricted under the Negative List and Foreign investment in entities holding an ICP Licence or EDI Licence is subject to the Administrative Regulations on Foreign-Invested Telecommunications Enterprises. On 7 April 2022, the State Council officially promulgated the Decision of the State Council on Revising and Repealing Certain Administrative Regulations (《國務院關於修改和廢止部分行政法規的決定》), which amended the Administrative Regulations on Foreign-Invested Telecommunications Enterprises with the amendments taking effect on 1 May 2022. Under the amended Administrative Regulations on Foreign-Invested Telecommunications Enterprises, the requirement that foreign investors investing</p>

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in entities holding VAT Licences must have a good track record and operational experience in the value-added telecommunications industry (“**Qualification Requirements**”) was cancelled. Nevertheless, under the amended Administrative Regulations on Foreign-Invested Telecommunications Enterprise, whilst foreign investors are able to invest in entities holding an EDI Licence (without any shareholding percentage limit) and invest in entities holding an ICP Licence (holding up to 50% equity interest and not more), whether the post-foreign-invested entity can hold a VAT Licence is still subject to the examination of substance and merits by MIIT.

On 30 March 2022, our PRC Legal Adviser consulted with MIIT, after we expressed our listing intention and our wish to consult on questions relating to the foreign investment restrictions on VAT Licences, and was informed that, among other things, (i) even if the foreign investor from our Group met the Qualification Requirements and the relevant members of our Group applied to hold an EDI or ICP Licence as a foreign-invested enterprise, in practise, such application by a foreign-invested enterprise would not be currently approved; and (ii) we are not required to seek their approval for the Contractual Arrangements, comparable to many other overseas listed companies operating internet businesses in PRC which had adopted similar contractual arrangements. On 24 April 2022, our PRC Legal Adviser verbally consulted with MIIT again in relation to the amended Administrative Regulations on Foreign-Invested Telecommunications Enterprises, and was informed that the response from MIIT in the 30 March 2022 consultation remained effective and applicable before the issuance of detailed examination and approval rules or guidelines for the amended Administrative Regulations on Foreign-Invested Telecommunications Enterprises, meaning that currently an application by a foreign-invested enterprise from our Group to hold an EDI or ICP Licence would not be approved in practise.

The abovementioned MIIT consultations were conducted with the relevant department of MIIT. This department of MIIT is responsible for, among others, researching and analysing the information and communication (including telecom and internet) industry and relevant regulatory policies for VAT services. Based on this and the consultation responses, our PRC Legal Adviser is of the view that such department is competent to provide the above confirmation and give guidance on whether our Company or its equity-held subsidiaries would be approved to hold the relevant VAT Licences.

Given that Guangzhou Yuewei operates a foreign-prohibited business and the remaining Consolidated Affiliated Entities operate foreign-restricted businesses that require VAT Licences and based on the abovementioned MIIT consultations, our Company or any other subsidiaries our Company hold equity interests (together with the Company, collectively, the “**Equity-held Subsidiaries**”) would not be approved to hold these VAT Licences, and our Company is not currently able to hold any equity interest in our Consolidated Affiliated Entities. Based on this and the advice of our PRC Legal Adviser on the PRC foreign investment restriction policies, we are of the view that the Contractual Arrangements and our variable interest entity structure as a whole are narrowly tailored.

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Our Self-operation Business (namely, *procuring* pharmaceutical and health-care products and *selling* on our Yaoshibang platform) does not fall within the scope of VAT services and is not subject to foreign-investment prohibitions or restrictions under current PRC laws. By contrast, the *operation* of our Yaoshibang platform constitutes a VAT service and is operated by our Consolidated Affiliated Entities (as explained under the “Value-added communications services” row in the table above).

We will unwind and terminate the Contractual Arrangements wholly or partly once our businesses are no longer prohibited or restricted from foreign investment and to the extent permissible under PRC Laws.

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The Contractual Arrangements provide a mechanism through which: (a) economic benefits of the Onshore Holdcos are able to be transferred to us through the Business Cooperation Agreement (defined below); and (b) we are able to control the Onshore Holdcos through the Option Agreements, Share Pledge Agreements, Entrustment Agreements and Spousal Consent Letters (each defined below).

For the purpose of this section and unless the context specifies otherwise, “us”, “we” and “our” refer to our Company and/or its Equity-held Subsidiaries.

We set out below a summary of the documents underlying and key features of our Contractual Arrangements. See “Statutory and general information—Further information about our business—Summary of material contracts” in Appendix IV for further details on the agreements.

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

Business Cooperation Agreements

On 16 May 2022, our WFOE (being Guangzhou Sudaoyi) entered into an exclusive business cooperation agreement with each of our Onshore Holdcos (being Guangzhou Sudaoyi and Guangzhou Yaobang) (each an “**Business Cooperation Agreement**”). Under these agreements, WFOE or its designated parties have exclusive right to provide Onshore Holdcos with, among others, technical services, consultation services and broadcasting services, retail services, freight transportation services, value-added telecommunications services, and administrative services, in exchange for service fees. The amount of service fees may be adjusted by WFOE on the basis of the volume of work performed and commercial value of the services provided. Without WFOE’s prior written consent, Onshore Holdcos shall not accept any service covered by the agreement from any third party. WFOE owns the intellectual property rights arising out of the services performed under these agreements. Each agreement will remain in force until terminated by written agreement from both parties, by written notice from WFOE. Unless otherwise required by PRC Laws, Onshore Holdcos shall not unilaterally terminate their respective agreement.

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

Option Agreements

On 16 May 2022, WFOE entered into exclusive option agreements with the Onshore Holdcos and their registered shareholder(s) (each an “**Option Agreement**”). Under these agreements, each registered shareholder granted to WFOE or its designated person an irrevocable and exclusive option to

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acquire, at any time, all of their equity interests in or assets of the respective Onshore Holdco at the minimum price permissible under PRC Laws. The option period under each Option Agreement is from the agreement date until all registered shareholders under that agreement have transferred all their equity interests in the respective Onshore Holdco to, or all assets of the respective Onshore Holdco have been transferred to WFOE or its designated person.

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

- (a) the registered shareholders undertook to WFOE that, unless with the prior consent of WFOE or its designated person, the following matters, among others, would not take place: (i) supplement, modify or amend constitutional documents of the respective Onshore Holdco; (ii) procure the respective Onshore Holdco to enter into transactions that would adversely affect the assets, operations, equity interests and other legitimate rights of that Onshore Holdco; (iii) changing the board or senior management composition of the respective Onshore Holdco; (iv) approving any dividend or bonus distributions; (v) disposing of or otherwise encumbering the respective Onshore Holdco's equity interest or assets; and (vi) taking any act relating to restructuring (e.g., mergers and acquisitions, investing in third parties, liquidating or dissolving that Onshore Holdco);
- (b) the registered shareholders additionally undertook to, among others: (i) immediately notify WFOE of any litigation, arbitration or administrative procedure occurring or likely occurring that is related to or may adversely affect the equity interests of the respective Onshore Holdco; (ii) comply with the respective Option Agreement and any other agreement with WFOE and perform their obligations thereunder; (iii) cooperate and take necessary actions to assist in the performance of the Option Agreement (e.g., make relevant registrations to reflect any transfer under that agreement); and (iv) ensure that any proceeds distributed by the respective Onshore Holdco received by the registered shareholder(s) to that agreement (e.g., as profit or dividend distribution or proceeds from liquidation) will be gifted in the manner designated by WFOE as permissible under PRC Laws; and
- (c) the respective Onshore Holdco undertook to WFOE that, unless with prior consent of WFOE or its designated person, the following matters, among others, would not take place: (i) taking actions that would adversely affect its assets, operations, liabilities, equity interest and other legitimate rights (e.g., incurring any debts or entering/terminating into any material contracts) (other than those arising out of the ordinary course of business); (ii) distributing dividends or bonuses to its shareholders; (iii) disposing of or otherwise encumbering its equity interest or assets (other than those arising out of the ordinary course of business); and (iv) amending its constitutional documents, entering into any merger, or acquiring or investing in third parties.

Share Pledge Agreements

On 16 May 2022, WFOE entered into share pledge agreements with the Onshore Holdcos and their registered shareholder(s) (each a "**Share Pledge Agreement**"). Under these agreements, each registered shareholder pledged all of their equity interests in the respective Onshore Holdco, held from time to time, to guarantee performance under the respective Contractual Arrangements by the registered shareholder and respective Onshore Holdco. The pledge period for each Share Pledge Agreement is from the day when any such pledge is registered with the relevant authority until all contractual obligations are fulfilled or guaranteed debts fully paid off in relation to the parties thereto.

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To preserve the pledged interests, each registered shareholder undertook that, among others: (i) the pledged interests would not be transferred or encumbered without WFOE's prior written consent; and (ii) any rights over the pledged interests enjoyed by WFOE would not be prejudiced by legal procedures by that registered shareholder or their successor or any other person, and that registered shareholder would take all necessary and required measures and execute all necessary and required documents to assist WFOE in realising its rights over the pledged interests.

Entrustment Agreements

On 16 May 2022, WFOE entered into voting entrustment agreements with the registered shareholder(s) of each Onshore Holdco (each an "**Entrustment Agreement**"). Pursuant to these agreements, each registered shareholder granted a power of attorney to WFOE or a person designated by WFOE ("**attorney-in-fact**") to irrevocably authorise WFOE to act as its attorney-in-fact to exercise all of that shareholder's voting and other rights associated with that shareholder's equity interest in the respective Onshore Holdco, including, but not limited to, the right to attend shareholders' meetings on behalf of that shareholder, the right to appoint directors and chief executive officers and other senior management, and the right to sell, transfer, pledge and dispose of all or a portion of the shares held by that shareholder. Each Entrustment Agreement remains effective until, among other reasons, the agreement is terminated by the parties in writing. Unless otherwise required by PRC Laws, none of the Onshore Holdcos or its registered shareholder(s) can unilaterally terminate this agreement.

To minimise any conflicts of interest, under the Entrustment Agreements, none of the registered shareholders of the Onshore Holdcos or any other person who may give rise to a conflict of interest with our Company may act as attorney-in-fact in respect of the registered shareholders' rights and interests in the respective Onshore Holdco. Other than this, the attorney-in-fact may be a director of our Group (who does not have a material conflict of interest) and an administrator or liquidator of WFOE.

Spousal Consent Letters

The spouse of each registered shareholder of the Onshore Holdcos has each signed a spousal consent letter agreeing that the equity interest in the respective Onshore Holdco held by and registered under the name of the respective shareholder will be disposed of pursuant to the respective Contractual Arrangements with WFOE. Each spouse agreed not to assert any rights over the equity interest in the respective Onshore Holdco held by the respective shareholder.

Further information about our Contractual Arrangements

Onshore Holdcos' subsidiaries

Under the Contractual Arrangements, our Company has control over Onshore Holdcos' subsidiaries (the "**VIE Subsidiaries**") by virtue of: (a) the subsidiaries being controlled by the Onshore Holdcos, over which we have extensive control of the composition of board and senior management (under the Option Agreements); (b) both Onshore Holdcos and their Registered Shareholders having undertaken to WFOE that no actions would be taken that would adversely affect the assets, equity interests and other legitimate rights of Onshore Holdcos, which includes interest over the VIE Subsidiaries (under the Option Agreements); and (c) during the service period, both Onshore Holdcos having undertaken that they would not, and would procure their subsidiaries not, to accept any same or similar services provided by a third party, and both Onshore Holdcos would not enter into a similar service agreement with a third party (under the Business Cooperation Agreements).

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To further enhance our Company's control over the VIE Subsidiaries, on 21 November 2022, WFOE, each VIE Subsidiary, and its respective Onshore Holdco (or direct shareholder) entered into a separate full set of VIE agreements, which are on substantially the same terms as the Contractual Arrangements (as described in “—Arrangements that allow us to receive economic benefits from our Consolidated Affiliated Entities” and “—Arrangements that provide us with effective control over our Consolidated Affiliated Entities” above). Through these three sets of VIE agreements, our Company, through WFOE, has direct control over the VIE Subsidiaries. See “Statutory and general information—Further information about our business—Ancillary VIE agreements to the Contractual Arrangements” for a list of the VIE agreements entered into by these VIE Subsidiaries.

Dispute resolution

In the event of any dispute with respect to the interpretation or performance of the provisions, each of the Business Cooperation Agreements, Option Agreements, Entrustment Agreements and Share 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 within 30 days after the relevant dispute arises, any party may submit the relevant dispute to the Shenzhen Court of International Arbitration for arbitration, in accordance with the then effective arbitration rules. The arbitration ruling shall be final and binding on all parties.

Each respective party to the agreements shall have right to apply to courts with competent jurisdiction to enforce the arbitral awards. The agreements further provide that: (i) the tribunal may award remedies over shares or assets of the respective Onshore Holdco, award injunctive relief (e.g., for the conduct of business or to compel the transfer of assets), or order the winding-up of the respective Onshore Holdco; and (ii) the courts of Hong Kong, the Cayman Islands (as the place of incorporation of our Company), Guangzhou, PRC (as the place of establishment of the Onshore Holdcos) and other jurisdictions where our Company and/or the respective Onshore Holdco's main assets are located each have jurisdiction to grant interim remedies and/or enforce an arbitral award or interim remedies against the shares or properties of the respective Onshore Holdco.

See “Risk factors—Risks related to our corporate structure.”

Conflict of Interests

Under the Entrustment Agreements, none of the registered shareholders of the Onshore Holdcos or any other person who may give rise to a conflict of interest with our Company may act as attorney-in-fact in respect of the registered shareholders' rights and interests in the respective Onshore Holdco. See “—Arrangements that provide us with effective control over our Consolidated Affiliated Entities—Entrustment Agreements” for further details.

Loss Sharing

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

Notwithstanding this, WFOE intends to provide continuous support and assistance to the Consolidated Affiliated Entities, as necessary, and their financial performance will be consolidated into

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our Company's accounts. As such, our operational and financial performance would be materially and adversely affected if the Consolidated Affiliated Entities suffer loss. To minimise the risk of loss, we have undertaken a number of measures under the Contractual Arrangements. In particular, see "Option Agreements" and "Share Pledge Agreements" in the sub-section "—Arrangements that provide us with effective control over our Consolidated Affiliated Entities" above for further details.

Succession

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

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

See "Entrustment Agreements" and "Option Agreements" in the sub-section "—Arrangements that provide us with effective control over our Consolidated Affiliated Entities" for further details.

Insurance

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

Our confirmation

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

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

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

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

- (a) parties to each of the agreements are entitled to execute the agreements;
- (b) the Contractual Arrangements would not fall within the circumstances as stipulated in the PRC Civil Code which will lead the arrangements as invalid act under the PRC Civil Code;

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- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our Onshore Holdcos or WFOE;
- (d) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from the PRC governmental authorities, except that:
 - (i) the exercise of the option by WFOE of its rights under the Option Agreements to acquire all or part of the equity interests in the respective Onshore Holdco is subject to the approvals of, consent of, filing with and/or registrations with the PRC governmental authorities;
 - (ii) any share pledge contemplated under the Share Pledge Agreements is subject to the approval of and/or registration with competent administration bureau;
 - (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognised by the PRC courts before compulsory enforcement;
 - (iv) the transfer and licence of the intellectual properties pursuant to the Business Cooperation Agreements are subject to the approval of and/or registration with competent government authorities; and
- (e) based on its understanding of the relevant PRC laws and regulations, subject to uncertainties of the enforceability of the dispute resolution provisions of the Contractual Arrangements, and subject as to enforceability to applicable bankruptcy, insolvency, moratorium, reorganisation and similar laws affecting creditors' rights generally, the discretion of relevant governmental authorities in exercising their authority in connection with the interpretation and implementation thereof and the application of relevant PRC Laws and policies thereto, each of these Contractual Arrangements is and taken as a whole are, (i) valid and legally binding on each party thereto, and (ii) enforceable in accordance with the terms thereof.

Our PRC Legal Adviser has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Since PRC laws and regulations governing the validity of these Contractual Arrangements are uncertain and the relevant governmental authorities have broad discretion in interpreting these laws and regulations, we cannot assure you or make any prediction that the Contractual Arrangements will not result in any violation. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC Legal Adviser. It is uncertain whether any other new PRC laws or regulations relating to consolidated affiliated entity structures will be adopted or if adopted, what they would provide. If we or our Consolidated Affiliated Entities are found to be in violation of any existing or future PRC laws, rules or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including: (a) revoking the business licences of such entity; (b) discontinuing or restricting the conduct of any transactions between certain of our PRC subsidiaries and Consolidated Affiliated Entities; (c) imposing fines, confiscating the income from our Consolidated Affiliated Entities, or imposing other requirements with which we or our Consolidated Affiliated Entities may not be able to comply; (d) requiring us to restructure our ownership structure or operations, including terminating the Contractual Arrangements with our Consolidated Affiliated Entities and deregistering the equity pledges of our Consolidated Affiliated Entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our Consolidated Affiliated Entities; or

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(e) restricting or prohibiting our use of the proceeds of any of our financing outside China to finance our business and operations in China.

See “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”.

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

DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On 15 March 2019, the National People’s Congress approved the Foreign Investment Law which became effective on 1 January 2020. On 26 December 2019, the State Council promulgated the Implementing Rules of the Foreign Investment Law, which came into effect on 1 January 2020. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementing Rules of the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

The Foreign Investment Law and the Implementing Rules of the Foreign Investment Law do not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC Legal Adviser, the Foreign Investment Law, as it is interpreted and implemented as of the date of this document, does not have a material adverse impact on our Contractual Arrangements, including their legality and validity.

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 Contractual Arrangements to establish control of the Consolidated Affiliated Entities, by WFOE, through which we operate our business in the PRC.

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 the Onshore Holdcos 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.”

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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:

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

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Under the Business Cooperation Agreements, it was agreed that, in consideration of the services provided by WFOE, each Onshore Holdco shall pay service fees to WFOE. Additionally, WFOE has a right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities.

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

As a result of the Contractual Arrangements among WFOE, the Onshore Holdcos and its respective registered shareholder(s), WFOE is able to effectively control, recognise and receive the economic benefit of the business and operations of the Consolidated Affiliated Entities. Accordingly, Consolidated Affiliated Entities are treated as controlled entities of our Company and consolidated by our Company. The basis of consolidating the results of these Consolidated Affiliated Entities is disclosed in Note 5 to the Accountant's Report set out in Appendix I to this document.