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BACKGROUND

We currently conduct our online consultation and e-prescription services, online retail pharmacy services and online academic community services (the “**Relevant Businesses**”) through our Consolidated Affiliated Entities, namely Fangzhou Yunkang together with its subsidiaries, which were all established under the PRC laws.

Since the Relevant Businesses are classified as foreign investment restricted or prohibited businesses under the applicable PRC laws, regulations or rules, in order to comply with the PRC laws and regulations and maintain effective control over the operation of the Relevant Businesses, Fangfeng Technology (the “**New WFOE**”) entered into a series of contractual arrangements with Fangzhou Yunkang and the Fangzhou Yunkang Registered Shareholders on June 19, 2020 (the “**Contractual Arrangements**”), under which the New WFOE is entitled to substantially all economic benefits arising from the business of the Consolidated Affiliated Entities to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangements, we have acquired effective control over the financial and operational management and results of Fangzhou Yunkang and are entitled to substantially all the economic benefits derived from the operations of Fangzhou Yunkang. For the years ended December 31, 2021, 2022 and 2023, the Consolidated Affiliated Entities, namely Fangzhou Yunkang and its wholly controlled subsidiaries (i.e. Fangzhou Medicine, Fangzhou Internet Hospital, Qishi Hospital, Fangzhou Media and Ruishi Hospital), in aggregate contributed to 92.56%, 92.53% and 93.37% of the total revenue of the Group, respectively.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into among the parties thereto; (ii) by entering into the Exclusive Service Agreement with the New WFOE, our Consolidated Affiliated Entities will enjoy better economic and technological support from us, as well as a better market reputation after the [REDACTED], and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

OVERVIEW OF LAWS AND REGULATIONS OF THE PRC RELATING TO FOREIGN OWNERSHIP RESTRICTIONS AND THE APPLICATION THEREOF TO THE GROUP’S BUSINESSES

Overview

Investment activities in the PRC by foreign investors are principally governed by the Catalogue of Industries for Encouraging Foreign Investment (《鼓勵外商投資產業目錄(2022年版)》) (the “**Catalogue**”), and the Special Administrative Measures for Access of Foreign Investment (《外商投資准入特別管理措施(負面清單)》) (the “**Negative List**”), both of which were promulgated and are amended from time to time by the MOFCOM and the NDRC. The Catalogue and the Negative List lay out the basic framework for foreign investment in China, classifying businesses into three categories with regard to foreign investment: “encouraged”, “restricted” and “prohibited”. Industries not listed in the Catalogue and the Negative List are generally deemed as falling into a fourth category “permitted” unless specifically restricted by other PRC laws.

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Prohibited Business

Set out below is a summary of our businesses that are subject to foreign investment prohibition:

Radio and Television Program Production and Operation Service

Our Relevant Businesses involve providing online short videos, online lectures and courses, live-streaming and other online academic community service through mobile application. In order to provide such services, each of Fangzhou Medicine and Fangzhou Media, being wholly-owned subsidiaries of Fangzhou Yunkang, holds a license for production and operation of radio and television programs (《廣播電視節目製作經營許可證》) (“**R&T License**”) to provide filming and recording services of online short videos, online lectures and courses, which falls within the scope of the production and operation of radio and television programs, where foreign investment is prohibited according to the Negative List.

Our PRC Legal Advisor made a telephone consultation with the Radio and Television Administration of Guangdong Province (廣東省廣播電視局), and understands that an internet platform operator like Fangzhou Medicine which makes customized short videos, online lectures and courses and live-streaming lectures for a fee and providing such videos or live-streaming services to its users/customers by uploading them on its internet platform is required to obtain a R&T License. As advised by our PRC Legal Advisor, the Radio and Television Administration of Guangdong Province is the competent authority and the officer consulted is competent to give such confirmation.

Internet Audio-Visual Program Service

Fangzhou Medicine also holds a license for operation of internet cultural business (《網絡文化經營許可證》) to provide pre-recorded courses and live-streaming courses to users through its mobile applications, which falls within the scope of internet audio-visual program services, where foreign investment is prohibited according to the Negative List.

Restricted Business

Set out below is a summary of our businesses that are subject to foreign investment restriction:

Online hospital services and relevant online retail pharmacy services

According to the Negative List, a medical institution falls within the “restricted” category under the Negative List and foreign investors are only allowed to invest in medical institutions in the form of joint ventures. 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》) (the “**Medical Institutions Administration Measures**”), operation of “medical institutions” falls within the “restricted category” and foreign investors

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are not allowed to hold more than 70% equity interests in a “medical institution”. However, as the PRC internet healthcare industry is relatively new and evolving, neither the Negative List nor the Medical Institutions Administration Measures provides clear guidance on the categorization of operation of “online hospital services” in terms of foreign investment restrictions. Our PRC Legal Advisor is of the view that, in practice, foreign investment restrictions on “online hospital services” are subject to the supervision and administration of the local competent authority responsible for supervision and administration of foreign investment and local health administrative departments, and there might be difference in the policy, guidance and interpretation adopted by the authorities in different provinces.

In Guangdong province, Fangzhou Yunkang and its subsidiaries, namely Fangzhou Medicine, Fangzhou Internet Hospital and Qishi Hospital, are engaged in online internet hospital services such as online consultation and e-prescription services. Ruishi Hospital, a wholly-owned subsidiary of Fangzhou Yunkang, holds a medical institution practice license (《醫療機構執業許可證》) and intends to conduct online hospital services. Our PRC Legal Advisor, the PRC legal advisor of the Joint Sponsors and the Company conducted consultation with the competent government authority responsible for supervision and administration of foreign investment in Guangdong province, namely Department of Commerce of Guangdong Province (廣東省商務廳). The Department of Commerce of Guangdong Province verbally confirmed that, (i) no applicable PRC laws, regulations or rules have provided clear guidance on application or approval for foreign invested enterprise’s operation of “online hospital services and relevant online retail pharmacy services”, (ii) the application by foreign invested enterprise is subject to the authorities’ review on a case-by-case basis, (iii) there exists enormous difficulty and significant uncertainty on whether an application from a foreign invested enterprise for operating “online hospital services and relevant online retail pharmacy services” within its respective jurisdictions would be approved, and currently no such approval has ever been issued in Guangdong province; and (iv) prior to obtaining approval for operating “online hospital services and relevant online retail pharmacy services”, foreign invested enterprise cannot engage in such business and such business shall only be conducted by a domestic enterprise whose shareholders are purely domestic investors rather than foreign investors. As advised by our PRC Legal Advisor, the Department of Commerce of Guangdong Province is the competent authority and the officers interviewed are competent to give such confirmation in respect of foreign investments. Our PRC Legal Advisor is also of the view that, notwithstanding the abovementioned 70% limit on foreign investment, based on the above confirmation, within the Guangdong province, in practice, the likelihood of obtaining approval by a foreign invested enterprise for the operation of online hospital services and relevant online retail pharmacy services is remote and without such approval, a foreign invested enterprise is prohibited from holding any equity interest in such Relevant Businesses operated by Fangzhou Yunkang, Fangzhou Medicine, Fangzhou Internet Hospital and Qishi Hospital.

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In Xinjiang province, Xinjiang Internet Hospital holds a medical institution practice license (《醫療機構執業許可證》) and the medical institution type of Xinjiang Internet Hospital is internet hospital. With respect to the local foreign restriction in internet hospital, our PRC Legal Advisor, the PRC legal advisor of the Joint Sponsors and the Company conducted consultation with the competent government authority, namely the Health Commission of Xinjiang Production and Construction Corps (新疆生產建設兵團衛生健康委員會). The Health Commission of Xinjiang Production and Construction Corps verbally confirmed that in Xinjiang, internet hospitals are regulated as offline hospitals and foreign investors are not allowed to hold, either directly or indirectly, more than 70% equity interest in a medical institution. As advised by our PRC Legal Advisor, the Health Commission of Xinjiang Production and Construction Corps is the competent authority and the officers interviewed are competent to give such confirmation in respect of foreign investments. Upon completion of the restructuring in contemplation of the [REDACTED], Xinjiang Internet Hospital was held as to 70% and 30% by Fangzhou Information (a wholly-owned subsidiary of the New WFOE) and Fangzhou Yunkang, respectively.

Offline medical institution business

Jingtai Hospital, a subsidiary of the Company, holds a medical institution practice license and only provides offline hospital services in Guangzhou as a complement to the online healthcare services of the Company. According to the Medical Institutions Administration Measures, 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”. Liu Xiukui is the registered promoter of Jingtai Hospital and a nominee of the New WFOE and Fangzhou Yunkang. Since Jingtai Hospital does not provide online hospital services, the New WFOE as a foreign investor is allowed to hold 70% equity interests in Jingtai Hospital. Therefore, the New WFOE and Fangzhou Yunkang hold 70% and 30% of the registered capital and promoter’s interest in Jingtai Hospital, respectively.

Value-added telecommunication service

Each of Fangzhou Yunkang, Fangzhou Medicine, Yunyi Information and Fangzhou Media holds an ICP License in the Group to operate value-added telecommunication services through our platform. Fangzhou Medicine mainly provides the value-added telecommunication services in relation to the operation of Jianke Platform, online internet hospital services and online sales of pharmaceutical products. Each of Fangzhou Medicine and Fangzhou Media is wholly owned by Fangzhou Yunkang. Yunyi Information is held by the New WFOE and Fangzhou Yunkang as to 50% and 50%, respectively. Yunyi Information is expected to conduct online hospital services and relevant online retail pharmacy services once approval from competent authority has been obtained.

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According to the revised “Regulation for the Administration of Foreign-Invested Telecommunications Enterprises” (《外商投資電信企業管理規定》) (the “**Regulation**”) that came into effect on May 1, 2022, the qualification requirement on the primary foreign investor in a foreign invested value-added telecommunications enterprise for having a good track record and operational experience in the value-added telecommunications industry (the “**Qualification Requirement**”) was removed.

On May 24, 2022, our PRC Legal Advisor conducted a phone inquiry with the MIIT through service hotline and the relevant MIIT officer confirmed that, (i) the Qualification Requirement has been removed, and (ii) whether a foreign investment enterprise can obtain an ICP License is subject to the examination by MIIT. As advised by our PRC Legal Advisor, the MIIT is the competent authority and the officer consulted was competent to give such confirmation. Accordingly, Yunyi Information submitted an application to the MIIT and obtained an ICP License issued by MIIT dated August 2, 2022. Information on Yunyi Information’s ICP License has been posted on the official website of MIIT and could be searched on the telecommunication services business market integrated management information system of MIIT government service platform (工業和信息化部政務服務平台電信業務市場綜合管理信息系統). Foreign investors may hold an aggregate of no more than 50% of the total equity in any value-added telecommunications business in the PRC. According to the Negative List and the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》), additional value added telecommunication service business is considered “restricted”, which is subject to restrictions on percentage of foreign ownership (not holding more than 50%, except for e-commerce, domestic multi-party communications, storage-forwarding and call centers). However, according to the abovementioned confirmation of the Department of Commerce of Guangdong Province (廣東省商務廳), merely holding the ICP License without any approval for operating “online hospital services and relevant online retail pharmacy services” does not enable Yunyi Information to operate any of the Relevant Businesses.

Our PRC Legal Advisor is of the view that, notwithstanding the abovementioned ICP License and 50% limit on foreign ownership, based on the above confirmation, within Guangdong province, in practice, the likelihood of obtaining approval for a foreign invested enterprise to operate online hospital services and relevant online retail pharmacy services is remote and without such approval, Yunyi Information as a foreign invested enterprise is prohibited from holding any equity interest in such business. Meanwhile, foreign investors or foreign invested enterprise could not hold any equity in Fangzhou Medicine. For more details, see “—Online hospital services and relevant online retail pharmacy services”. The purpose of establishing Yunyi Information and obtaining the ICP License pursuant to relevant PRC law is to eventually transfer the online hospital services and relevant online retail pharmacy services to Yunyi Information once restrictions of providing such services by foreign invested companies are lifted. The Company expects that, under the current shareholding structure of the Group, Fangzhou Media and Yunyi Information will not engage in the non-restricted business that can be operated separately from the foreign investment restricted or prohibited businesses in the foreseeable future.

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Permitted Business

Set out below is a summary of our businesses that are not subject to foreign investment prohibition or restriction:

Online sales of pharmaceutical products on third party platforms, offline pharmacy chain operation and drug warehousing

Fangzhou Yunkang and Fangzhou Medicine are also engaged in online sales of pharmaceutical products on third party platforms, offline pharmacy chain operation and drug warehousing. According to the Negative List, foreign investors are permitted to invest in online sales of pharmaceutical products on third-party platforms, offline pharmacy chain operation and drug warehousing (the “**Permitted Business**”). However, it would be impracticable and disruptive for Fangzhou Yunkang and Fangzhou Medicine to separate such applicable Permitted Business from Fangzhou Yunkang and Fangzhou Medicine, and/or transfer it to the New WFOE, for the following reasons:

- (a) The Drug Trading License is a prerequisite for providing online retail pharmacy services, and the transfer of offline pharmacy chain operation and drug warehousing business would render the Drug Trading License invalid.

According to the Drug Administration Law of the PRC last revised and effective from December 1, 2019 (《中華人民共和國藥品管理法》) (“**Drug Administration Law**”), a drug trading license (“**Drug Trading License**”) is a prerequisite for providing retail pharmacy services, and any entity conducting pharmacy operation and holding the corresponding Drug Trading License shall, among other things, (i) possess business premises, equipment, warehousing facilities and a hygienic environment commensurate with the drugs to be distributed by it, (ii) employ pharmacists or other pharmacy technicians with corresponding qualifications, and (iii) have established management or staff corresponding to the drug trading business (collectively, “**Pre-requisite Requirements**”). Within the Group, only Fangzhou Yunkang and Fangzhou Medicine are eligible for the application and holding of the Drug Trading License applicable to retail pharmacy service and pharmacy chain operation, as they could satisfy the Pre-requisite Requirements, while other subsidiaries of the Group do not possess certain offline pharmacy and warehousing facilities to apply for or hold the Drug Trading License applicable to retail pharmacy service and pharmacy chain operation in accordance with the relevant PRC laws. To apply for or maintain the validity of a Drug Trading License, the operator shall possess certain offline pharmacy and warehousing facilities in accordance with Drug Administration Law and other relevant drug retail regulations. Therefore, a transfer of Fangzhou Yunkang or Fangzhou Medicine’s offline pharmacy chain operation and drug warehousing business to the New WFOE would render them unable to provide any online retail pharmacy services.

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- (b) Transfer of drug trading business on third-party platforms to the New WFOE would have a material adverse impact and interruption on the operation of the Group as a whole.

The Pre-requisite Requirements must be satisfied for operators engaged in drug trading business with a Drug Trading License. Within the Group, only Fangzhou Yunkang and Fangzhou Medicine are eligible for the application and/or holding of the Drug Trading License applicable to retail pharmacy service and pharmacy chain operation, which is a prerequisite for conducting online drug trading business on third-party platforms. Accordingly, transferring such drug trading business operating on third-party platforms to the New WFOE would result in violation of relevant laws and regulations due to the lack of Drug Trading License. In addition, with respect to the online stores operated by Fangzhou Medicine on third party platforms, pursuant to the published policy of, or discussion of the Company with, such platforms, the Company understands that such platforms prohibit any change in the operating entity of the online stores, using the New WFOE to launch new online stores would result in a loss of customers and have a material adverse impact on the operation of the Group, jeopardizing our sales and brand reputation.

Based on the above, it would be impracticable and disruptive for the New WFOE to directly or indirectly hold equity interests in Fangzhou Medicine and Fangzhou Yunkang and then apply for the Drug Trading Licenses and engage in online sales of pharmaceutical products on third party platforms, offline pharmacy chain operation and drug warehousing.

NARROWLY TAILORED CONTRACTUAL ARRANGEMENTS

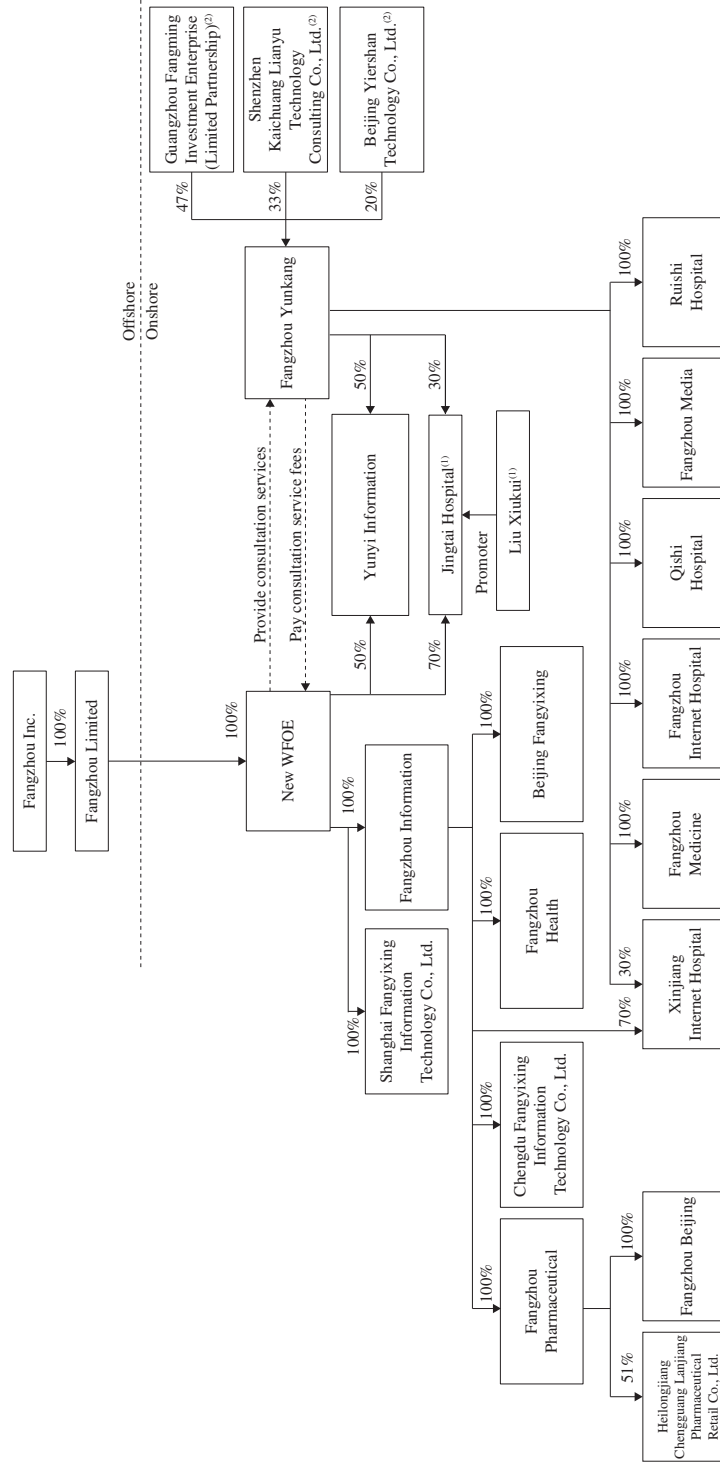
In light of the above, we believe that the Contractual Arrangements are narrowly tailored to achieve our business purposes and minimize the potential conflict with relevant PRC laws and regulations and to enable the Group to consolidate the financial results of our Consolidated Affiliated Entities which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

We will make periodic inquiries with relevant PRC authorities to understand any new regulatory development and will unwind and terminate the Contractual Arrangements as soon as practicable to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under the applicable PRC laws and regulations if the applicable PRC laws and regulations allow foreign ownership.

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



Notes:

- (1) Liu Xiukui is the registered promoter of Jingtai Hospital and a nominee of the New WFOE and Fangzhou Yunkang. The New WFOE and Fangzhou Yunkang each holds 70% and 30% of the registered capital and promoter's interest in Jingtai Hospital.
- (2) Guangzhou Fangming Investment Enterprise (Limited Partnership) is a limited partnership wholly-owned by Mr. Xie. Shenzhen Kaichuang Lianyu Technology Consultancy Co., Ltd. is a limited liability company owned as to 55% and 45%, respectively, by Zhang Xinwei (張新偉) and Wang Wenchao (汪聞超), each of whom holds equity interest in Shenzhen Kaichuang Lianyu Technology Consultancy Co., Ltd. as a nominee appointed by Crescent Point. Beijing Yiershan Technology Co., Ltd. is a limited liability company wholly owned by Yang Jinghua (楊敬華), the mother of Mr. Zhou, who holds equity interest in Beijing Yiershan Technology Co., Ltd. as the nominee on behalf of Mr. Zhou.

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SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

Exclusive Service Agreement

As part of the Contractual Arrangements, New WFOE and Fangzhou Yunkang entered into the exclusive consultancy and service agreement on June 19, 2020 (the “**Exclusive Service Agreement**”). Pursuant to the Exclusive Service Agreement, the New WFOE agreed to be engaged as the exclusive provider to Fangzhou Yunkang of technical support, consultation and other services for a monthly service fee, including the following services:

- (i) provision of the following technology development, transfer and consultancy services:
 - a. development of technology in respect of new business;
 - b. supporting and maintenance of technology in respect of current business;
 - c. regular updating of all business contents; and
 - d. provision and maintenance of all hardware and network necessarily requested for operation of business;
- (ii) staff training and on-board training services;
- (iii) public relations services;
- (iv) market survey, research and consultancy services;
- (v) short-term and mid-term market development and market planning services;
- (vi) human resources management and internal information management;
- (vii) development, updating and daily maintenance of network;
- (viii) the use of any relevant software and trademarks legally owned by the New WFOE;
and
- (ix) other services provided by the New WFOE from time to time based on the business requirements and the services capacity of the New WFOE.

Pursuant to the Exclusive Service Agreement, the New WFOE has the exclusive and complete proprietary rights to all intellectual properties developed in the performance of obligations under the Exclusive Service Agreement, whether developed by Fangzhou Yunkang, the New WFOE, or jointly.

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The effective period of the Exclusive Service Agreement shall be ten years, and the Exclusive Service Agreement shall be automatically renewed for a term of ten years upon expiration of the effective period. Notwithstanding the above arrangement, the New WFOE shall be entitled to exercise its unilateral right to terminate by prior written notice to Fangzhou Yunkang based on its own judgment. Subject to applicable laws and unless stated otherwise in the Exclusive Service Agreement, Fangzhou Yunkang does not have the right to unilaterally terminate the agreement.

Exclusive Option Agreement

As part of the Contractual Arrangements, New WFOE, Fangzhou Yunkang and the Fangzhou Yunkang Registered Shareholders entered into the exclusive option agreement on June 19, 2020 (the "**Exclusive Option Agreement**"). Pursuant to the Exclusive Option Agreement, the New WFOE (or any designee) was granted an irrevocable, unconditional and exclusive right to purchase all or any of the equity interest in and/or assets of Fangzhou Yunkang held at present or in the future for a consideration equivalent to the lowest price permitted under the PRC laws at the time of purchasing. Subject to the relevant PRC laws and regulations, the Fangzhou Yunkang Registered Shareholders shall compensate the New WFOE with an amount equivalent to any purchase price, or profits, distributions, dividends or bonus received from the New WFOE.

Fangzhou Yunkang and the Fangzhou Yunkang Registered Shareholders, among other things, have covenanted that:

- (i) without the prior written consent of the New WFOE, they shall not in any manner supplement, change or amend the constitutional documents of Fangzhou Yunkang, increase or decrease their registered capital, or change the structure of their registered capital in other manner;
- (ii) they shall maintain Fangzhou Yunkang's corporate existence in accordance with good financial and business standards and practices, obtain and maintain all necessary government licenses and permits by prudently and effectively operating their business and handling their affairs;
- (iii) without the prior written consent of the New WFOE, they shall not at any time following the signing of the Exclusive Option Agreement sell, transfer, pledge or dispose of in any manner any assets of Fangzhou Yunkang (except for disposal of assets generated from ordinary course of business) or legal or beneficial interest in the business or revenues of Fangzhou Yunkang, or allow the encumbrance thereon of any security interest;
- (iv) without the prior written consent of the New WFOE, Fangzhou Yunkang shall not incur, inherit, guarantee or assume any debt, except for debts incurred in the ordinary course of business;

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- (v) Fangzhou Yunkang shall always operate all of its business during the ordinary course of business to maintain their asset value and refrain from any action/omission that may adversely affect the Fangzhou Yunkang's operating status and asset value;
- (vi) without the prior written consent of the New WFOE, they shall not cause Fangzhou Yunkang to execute any material contract with a value above RMB100,000, except the contracts executed in the ordinary course of business;
- (vii) without the prior written consent of the New WFOE, they shall not cause Fangzhou Yunkang to provide any person with any loan or credit except those provided in the ordinary course of business;
- (viii) they shall provide the New WFOE with information on Fangzhou Yunkang's business operations and financial condition at the request of the New WFOE;
- (ix) if requested by the New WFOE, they shall procure and maintain insurance in respect of Fangzhou Yunkang's assets and business from an insurance carrier acceptable to the New WFOE, at an amount and type of coverage typical for companies that operate similar businesses;
- (x) without the prior written consent of the New WFOE, they shall not cause or permit Fangzhou Yunkang to merge, consolidate with, acquire or invest in any person;
- (xi) they shall immediately notify the New WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to Fangzhou Yunkang's assets, business or revenue;
- (xii) to maintain the ownership by Fangzhou Yunkang of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defenses against all claims;
- (xiii) without the prior written consent of the New WFOE, Fangzhou Yunkang shall not in any manner distribute dividends to its shareholders, provided that upon the written request of the New WFOE, Fangzhou Yunkang shall immediately distribute all distributable profits to its shareholders;
- (xiv) at the request of the New WFOE, they shall appoint any persons designated by the New WFOE as the directors, executive directors or shareholders representative supervisors of Fangzhou Yunkang; and
- (xv) unless otherwise mandatorily required by the PRC laws, Fangzhou Yunkang shall not be dissolved or liquidated without prior written consent by the New WFOE.

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In addition, the Fangzhou Yunkang Registered Shareholders, among other things, have covenanted that:

- (i) without the written consent of the New WFOE, they shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in Fangzhou Yunkang, or allow the encumbrance thereon of any security interest, except for pledge created in accordance with the Equity Pledge Agreements;
- (ii) without the written consent of the New WFOE, they shall procure the shareholders' meeting and/or board meeting of Fangzhou Yunkang not to approve sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in Fangzhou Yunkang, or allow the encumbrance thereon of any security interest, except for pledge created in accordance with the Equity Pledge Agreements; and
- (iii) each of the Fangzhou Yunkang Registered Shareholders will transfer to the New WFOE or its appointee(s) by way of gift any profit or dividend in accordance with the PRC law.

The Exclusive Option Agreement shall remain effective until the New WFOE exercises its unilateral right to terminate by prior written notice to Fangzhou Yunkang and the Fangzhou Yunkang Registered Shareholders. Subject to applicable laws and unless stated otherwise in the Exclusive Option Agreement, Fangzhou Yunkang and the Fangzhou Yunkang Registered Shareholders do not have the right to unilaterally terminate the agreement.

Equity Pledge Agreements

As part of the Contractual Arrangements, New WFOE, Fangzhou Yunkang and the Fangzhou Yunkang Registered Shareholders entered into the equity pledge agreements on June 19, 2020 (the "**Equity Pledge Agreements**"). Pursuant to the Equity Pledge Agreements, the Fangzhou Yunkang Registered Shareholders agreed to pledge all their respective equity interests in Fangzhou Yunkang that they own, including any interest or dividend paid for the shares, to the New WFOE, as a security interest to guarantee the performance of contractual obligations by Fangzhou Yunkang and the Fangzhou Yunkang Registered Shareholders under these agreements, the Exclusive Option Agreement, the Exclusive Service Agreement and the Powers of Attorney.

Should an event of default (as provided in the Equity Pledge Agreements) occur, unless it is rectified or waived, the New WFOE shall have the right to exercise all such rights as a secured party under any applicable PRC laws and the Equity Pledge Agreements.

The pledges under the Equity Pledge Agreements have been duly registered with the relevant PRC legal authority pursuant to the PRC laws and regulations.

The Equity Pledge Agreements will remain effective until all obligations under the Exclusive Option Agreement, the Exclusive Service Agreement and the Powers of Attorney have been fully performed.

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Powers of Attorney

As part of the Contractual Arrangements, each of the Fangzhou Yunkang Registered Shareholders has executed a power of attorney on June 19, 2020 (collectively, the "**Powers of Attorney**"). Pursuant to the Powers of Attorney, each of the Fangzhou Yunkang Registered Shareholders irrevocably appointed the New WFOE and their designated persons as their attorneys-in-fact to exercise on its behalf, and agreed and undertook not to exercise, any and all right that it has in respect of its equity interests in Fangzhou Yunkang, including without limitation:

- (i) to convene and attend shareholders' meetings of Fangzhou Yunkang;
- (ii) to file documents with the relevant companies registry;
- (iii) to exercise all shareholder's rights and shareholder's voting rights in accordance with law and the constitutional documents of Fangzhou Yunkang, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in Fangzhou Yunkang;
- (iv) to execute any and all written resolutions and meeting minutes on behalf of such shareholder; and
- (v) to nominate or appoint the legal representatives, directors, supervisors, chief executive officer and other senior management of Fangzhou Yunkang.

As a result of the Powers of Attorney, we, through the New WFOE, are able to exercise management control over the activities that most significantly impact the economic performance of Fangzhou Yunkang.

The Powers of Attorney also provided that, in order to avoid potential conflicts of interest, where the Fangzhou Yunkang Registered Shareholders are officers or directors of our Group, the Powers of Attorney are granted in favour of other unrelated officers or Directors of our Group.

Further, the Powers of Attorney shall remain effective for so long as each shareholder holds equity interest in Fangzhou Yunkang.

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Spouse Undertakings

The spouse of each of Mr. Xie, Mr. Zhang Xinwei (張新偉), Mr. Wang Wenchao (汪聞超) and Ms. Yang Jinghua (楊敬華), being the shareholders of the Fangzhou Yunkang Registered Shareholders (collectively, the “**Ultimate Beneficial Shareholders**”), has signed an undertaking on June 19, 2020 (collectively, the “**Spouse Undertakings**”) to the effect, among other things, that:

- (i) he/she will not make any claim against any equity interests held by his/her spouse as a registered shareholder in Fangzhou Yunkang;
- (ii) should he/she by any reason hold any equity interest in Fangzhou Yunkang, he/she will be bound by, as amended from time to time, the Exclusive Option Agreement, the Equity Pledge Agreements and the Powers of Attorney. He/she undertook to comply with the obligations of Fangzhou Yunkang’s shareholders as set out in the aforementioned agreements, and for this purpose, to execute agreements on substantially similar terms as the aforementioned agreements upon New WFOE’s request; and
- (iii) each spouse will enter into all necessary documents and take all necessary actions to ensure the due performance of the Contractual Arrangements as amended from time to time.

Commitment Letters

Each of the Ultimate Beneficial Shareholders has issued a commitment letter (collectively, the “**Commitment Letters**”) dated April 6, 2023 to Fangzhou Yunkang and the New WFOE, respectively. According to the Commitment Letters, each of the Ultimate Beneficial Shareholders (i) acknowledges the establishment of the Exclusive Service Agreement, Exclusive Option Agreement, Equity Pledge Agreements, Powers of Attorney (collectively, the “**VIE Agreements**”) and recognizes the content and arrangements under the VIE Agreements; (ii) undertakes not to do anything that violates the VIE Agreements; (iii) undertakes not to enjoy any actual beneficial interest in Fangzhou Yunkang by virtue of indirectly holding equity interest in Fangzhou Yunkang; (iv) would make every effort to assist in and to ensure the Fangzhou Yunkang Registered Shareholders’ performance of obligations or liabilities under the VIE Agreements, including but not limited to the adoption of internal resolutions, the assistance in business registration, etc.; (v) undertakes that, except with written consent or instruction from the New WFOE or its parent company, the Ultimate Beneficial Shareholders would not do anything that may change, affect or alter the terms or arrangements of the VIE Agreements, or refuse to perform any obligations or liabilities under the VIE agreements, or terminate the VIE Agreements, or make any claims against or decide to dispose of any shares, assets, business in Fangzhou Yunkang Registered Shareholders, Fangzhou Yunkang or Fangzhou Yunkang’s subsidiaries or participating companies; and (vi) undertakes to use all efforts to procure Fangzhou Yunkang Registered Shareholders’ compliance with any subsequent modification, supplement, termination or other arrangement in connection with the VIE Agreements.

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Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Shenzhen Court of International Arbitration for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shenzhen and the language used during the arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions in the agreements under the Contractual Arrangements also provide that the arbitral tribunal may award remedies over the shares or assets of Fangzhou Yunkang or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of Fangzhou Yunkang; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of Fangzhou Yunkang are located for interim remedies or injunctive relief.

However, our PRC Legal Advisor has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of Fangzhou Yunkang pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. Even if the abovementioned provisions may not be enforceable under the 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 Fangzhou Yunkang or the Fangzhou Yunkang Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See "Risk Factors—Risks Relating to our Contractual Arrangements" in this document for further details.

Succession

According to the terms of the Exclusive Option Agreement and the Equity Pledge Agreements, the Fangzhou Yunkang Registered Shareholders have undertaken that the provisions set out in the Exclusive Option Agreement and the Equity Pledge Agreements are also binding on the successors of the Fangzhou Yunkang Registered Shareholders.

According to the terms of the Powers of Attorney and as confirmed by our PRC Legal Advisor, the Fangzhou Yunkang Registered Shareholders have undertaken that they have carried out all appropriate measures and executed all necessary documents, such that in the event of their loss of capacity, bankruptcy or under other circumstance which would affect their exercise of equity interest in Fangzhou Yunkang, their successor who, as a result, obtains shareholding or relevant rights in Fangzhou Yunkang would not be able to affect or impede the performance of obligations under the relevant agreements.

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In addition, each of the spouses of the ultimate beneficial owner of the Fangzhou Yunkang Registered Shareholders have executed an irrevocable undertaking dated June 19, 2020, respectively. See “—Spouse Undertakings” for details.

Conflict of Interest

Each of the Fangzhou Yunkang Registered Shareholders has given their irrevocable undertakings in the Powers of Attorney under the Contractual Arrangements which address potential conflicts of interests that may arise in relation to the Contractual Arrangements. See “—Powers of Attorney” for details.

Loss Sharing

None of the agreements constituting the Contractual Arrangements provides that the Company, the New WFOE or other PRC subsidiaries of ours, are obligated to share the losses of Fangzhou Yunkang, but if Fangzhou Yunkang suffers any losses or material difficulties of business, the New WFOE may provide financial support as permitted under the PRC laws at its discretion to Fangzhou Yunkang under the terms of the Exclusive Business Cooperation Agreement. Further, Fangzhou Yunkang is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it.

Under the PRC laws and regulations, the Company or the New WFOE are not expressly required to share the losses of Fangzhou Yunkang or provide financial support to Fangzhou Yunkang. Despite the foregoing, given that the Group conducts the Relevant Businesses in the PRC through Fangzhou Yunkang which holds the requisite PRC licenses and approvals, and that Fangzhou Yunkang’s results of operations and assets and liabilities are consolidated into the Group’s results of operations and assets and liabilities under the applicable accounting principles, the Company’s business, financial condition and results of operations would be adversely affected if Fangzhou Yunkang suffered losses.

Liquidation

Pursuant to the Exclusive Option Agreement and the Powers of Attorney, in the event of a mandatory liquidation required by the PRC laws, the Fangzhou Yunkang Registered Shareholders shall give the proceeds they received from liquidation as a gift to the New WFOE (or its designee(s) in the case of the Contractual Arrangements) to the extent permitted by the PRC laws.

Insurance

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

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Confirmation on Interference and Encumbrance

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

Safeguards for the Interest of Our Shareholders

The Company is of the view that Fangzhou Yunkang Registered Shareholders would not compromise the level of protection afforded to our Shareholders in the control of Fangzhou Yunkang and/or enforcement of the Contractual Arrangements based on the following reasons:

Each of the Fangzhou Yunkang Registered Shareholders has been duly incorporated and is validly existing under the PRC laws. As advised by our PRC Legal Advisor, each of Fangzhou Yunkang Registered Shareholders enjoys civil rights and assumes civil obligations independently as a legal entity in accordance with the PRC laws. Besides, the Company’s PRC Legal Advisor is of the opinion that each of the VIE Agreements is binding on the parties thereto and none of them would fall within the circumstances which would render a contract void as stipulated in the PRC Civil Code. See “—Legality of the Contractual Arrangements” for details. Therefore, each of Fangzhou Yunkang Registered Shareholders shall be bound by the VIE Agreements and undertake obligations accordingly.

To further ensure that the Ultimate Beneficial Shareholders would not compromise the level of protection afforded to our Shareholders in the control of Fangzhou Yunkang and the enforcement of the Contractual Arrangements, each of the Ultimate Beneficial Shareholders has issued a commitment letter dated April 6, 2023 to Fangzhou Yunkang and the New WFOE, respectively. See “—Commitment Letters” for details.

In addition, the spouse of each of the Ultimate Beneficial Shareholders has signed an undertaking to ensure they would not affect the Contractual Arrangements and will take all necessary actions to ensure the due performance of the Contractual Arrangements. See “—Spouse Undertakings” for details.

Therefore, the Company is of the view that, Fangzhou Yunkang Registered Shareholders would not compromise the level of protection afforded to our Shareholders in the control of Fangzhou Yunkang and/or enforcement of the Contractual arrangements.

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Safeguards for the Interest of the Company

Our PRC Legal Advisor is of the view that, the Group’s current Contractual Arrangements provide sufficient safeguards for the interest of the Company and its subsidiaries and it is not necessary to have the subsidiaries of Fangzhou Yunkang be included as parties to the VIE Agreements, based on the following reasons:

Fangzhou Yunkang, as the direct controlling shareholders, has direct equity control over its subsidiaries, and could make decisions and achieve effective control over the business, operations, assets and other equities or interests of its subsidiaries through its rights as a shareholder, such as the right to its subsidiaries’ distributions of dividends directly as the direct shareholder under PRC laws and the subsidiaries’ articles of associations.

Pursuant to the Exclusive Service Agreement, services provided by the New WFOE to Fangzhou Yunkang shall also apply to the subsidiaries controlled by Fangzhou Yunkang, Fangzhou Yunkang shall procure its subsidiaries to perform their obligations under the Exclusive Service Agreement. Pursuant to the Equity Pledge Agreements, relevant persons shall not sell, transfer, pledge or dispose of any assets, or business (other than in the ordinary course of business operations), or any legal or beneficial interest in the income, or permit the creation of any security interest therein of Fangzhou Yunkang or any of its subsidiaries at any time after the execution of the agreement by any means without the prior written consent of the New WFOE. Therefore, the subsidiaries of Fangzhou Yunkang would be bound by the VIE Agreements to exercise their rights and perform their obligations thereunder.

The Company is of the view that it is not necessary to have the subsidiaries of Fangzhou Yunkang be included as parties to the VIE Agreements, otherwise, (i) any future amendment, supplement, disposition or other arrangement to the VIE Agreements or the Contractual Arrangements shall be approved and signed by all the subsidiaries, which is time consuming and repetitive, and such amendment, supplement, disposition or arrangement shall still require approval from Fangzhou Yunkang, as the direct controlling shareholders to the subsidiaries, that makes no difference comparing with subsidiaries’ not being parties to the VIE Agreements; (ii) where the equity of the subsidiaries is pledged or the shareholders’ rights are entrusted, the Company’s customers or partners may doubt the stability of such subsidiaries’ shareholding structure and worry about relevant business risk, which may have adverse impact to the operation of the Group; and (iii) any inclusion of new subsidiaries under Fangzhou Yunkang would require the VIE Agreements to be re-executed among all relevant parties concerned, which would be extremely cumbersome as the Group’s operating scale and organizational structure grow over time.

To further providing safeguards for the interest of the Company or its subsidiaries, each of the Ultimate Beneficial Shareholders has issued a commitment letter dated April 6, 2023 to Fangzhou Yunkang and the New WFOE, respectively. See “—Commitment Letters” for details.

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Therefore, our PRC Legal Advisor is of the view that the Group’s current Contractual Arrangements provide sufficient safeguards for the interest of the Company or its subsidiaries, and it is not necessary to have the subsidiaries of Fangzhou Yunkang be included as parties to the VIE Agreements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

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

- (i) parties to the Contractual Arrangements have obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements;
- (ii) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them would fall within the contract void circumstances as stipulated in the Civil Code of People’s Republic of China (《中華人民共和國民法典》) (“**Civil Code**”). Pursuant to Articles 144, 146, 153 and 154 of the Civil Code, a contract is void if the civil juristic act: (i) is performed by a person who has no capacity for performing civil juristic acts; (ii) is performed by a person and another person based on a false expression of intent; (iii) is in violation of the mandatory provisions of laws or administrative regulations, unless such mandatory provisions do not lead to invalidity of such a civil juristic act; (iv) offends the public order or good morals; or (v) is conducted through malicious collusion between a person who performs the act and a counterparty thereof and thus harms the lawful rights and interests of another person;
- (iii) none of the Contractual Arrangements violates any provisions of the articles of association of Fangzhou Yunkang or the New WFOE;
- (iv) the parties to the Contractual Arrangements are not required to obtain any approvals or authorizations from the PRC governmental authorities, except that:
 - (a) the exercise of the option by the New WFOE of its right under the Exclusive Option Agreement to acquire all or part of the equity interests in Fangzhou Yunkang is subject to the approvals of, consent of, filing with and/or registrations with the PRC governmental authorities;
 - (b) any share pledge contemplated under the Equity Pledge Agreements are subject to the registration with the competent administration for market regulation; and
 - (c) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by PRC courts before compulsory enforcement;

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- (v) the Contractual Arrangements is valid, legal and binding under the PRC laws and regulations, and the adoption of the Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations, except for the following provisions regarding dispute resolution and the liquidating committee. See “—Dispute Resolution” for details.

However, we have been advised by our PRC Legal Advisor that there are uncertainties regarding the interpretation and application of the current and future PRC laws and regulations over the validity of the Contractual Arrangements, as well as whether we or our Consolidated Affiliated Entities can obtain any of the approvals that may be required by PRC regulatory authorities from time to time. Accordingly, there can be no assurance that the PRC regulatory authorities will not take a view that is contrary to or otherwise different from the above opinions of our PRC Legal Advisor in the future. See “Risk Factors—Risks Relating to our Contractual Arrangements—If the PRC government finds that the contractual agreements that establish the structure for operating certain of our business in China do not comply with applicable PRC regulations, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe consequences, including the nullification of the contractual arrangements and being 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” in this Document.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT IN THE PRC

The Foreign Investment Law

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

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Impact and Potential Consequences of the Foreign Investment Law on our Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in the PRC. The Foreign Investment Law does not explicitly prohibit or restrict a foreign investor to rely on contractual arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. As advised by our PRC Legal Advisor, contractual arrangements are not specified as a form of foreign investment under the Foreign Investment Law or the Foreign Investment Law Implementation Regulations, and if future laws, regulations and provisions do not prescribe contractual arrangements as a form of foreign investment and relevant laws and regulations in respect of foreign investment remain unchanged, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected, with an exception, for which, see “Risk Factors—Risks Relating to our Contractual Arrangements—If the PRC government finds that the contractual agreements that establish the structure for operating certain of our business in China do not comply with applicable PRC regulations, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe consequences, including the nullification of the contractual arrangements and being forced to relinquish our interests in those operations.” In any event, we will take reasonable steps in good faith to seek compliance with the Foreign Investment Law.

However, there are possibilities that future laws, administrative regulations and provisions prescribed by the State Council may regard the 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 then effective foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. In addition, the specific review standards by the relevant authorities determining the Contractual Arrangements as a form of the foreign investment is unpredictable, and the interpretation or implementation ultimately adopted by the relevant authorities of the Foreign Investment Law or the Foreign Investment Law Implementation Regulations may be inconsistent with our PRC Legal Advisors’ understanding.

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ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS AND CONSOLIDATION OF FINANCIAL RESULTS OF OUR CONSOLIDATED AFFILIATED ENTITIES

According to HKFRS 10-Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own the Consolidated Affiliated Entities, the Contractual Arrangements as mentioned above enable our Company to exercise control over the Consolidated Affiliated Entities.

As a result of the Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through the New WFOE and, at our Company’s sole discretion, can receive substantially all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities’ results of operations, assets and liabilities, and cash flows are consolidated into our Company’s financial statements.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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

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