
CONTRACTUAL ARRANGEMENTS

OVERVIEW

We (a) operate private higher education businesses (through our universities) (“**Education Business**”); and (b) publish audio-visual products and electronic publications, and provide internet publishing service (through Neusoft Electronic Press) (“**Publishing Business**”), in China (collectively, the “**Relevant Business**”).

PRC Laws regulate foreign ownership in the Relevant Business by (a) restricting foreign ownership in the Education Business; and (b) prohibiting foreign ownership in the Publishing Business. As such, we operate our Relevant Business through our Consolidated Affiliated Entities. See “Regulations”, “— Foreign investment restrictions under PRC laws on our education business” and “— Foreign investment restrictions under PRC laws on our publishing business.”

To comply with PRC Laws and maintain effective control over our Relevant Business (being the Education Business and the Publishing Business), we entered into Contractual Arrangements on 21 June 2019, under which our JV (being Neusoft Ruixin) acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and became entitled to all of the economic benefits derived from their operations. For a simplified diagram of the flow of economic benefits under our Contractual Arrangements, see “— Operation of our Contractual Arrangements”.

Accordingly, we do not directly own equity interest, or sponsor interest, in our Consolidated Affiliated Entities. Our three universities and Neusoft Electronic Press are ultimately majority owned by our Registered Shareholder, Neusoft Holdings (also a Controlling Shareholder), through our Operating Entity, Dalian Development. In this document, the term “ownership” (or its equivalent concept), as applied to our Company or our Group (as a whole), refers to economic interests in the assets or business of our subsidiaries (including our Consolidated Affiliated Entities).

We also operate short-term training services through our eight training schools. These short-term training services do not award students with academic credentials, and as such, is classified as a “training business.” In May 2019 and February 2020, with the assistance of our PRC Legal Adviser, we consulted the educational departments and human resources and social security departments of the relevant cities or provinces in which our training schools are located, and we were informed that foreign investors could directly or indirectly own equity interest or sponsor interest in training institutions. Based on this guidance and the advice of our PRC Legal Adviser, we are of the view that our training business, as presently operated by our eight training schools, does not fall under the “restricted” or “prohibited” category of the Negative List (defined below) and is not subject to foreign investment restrictions in China.

FOREIGN INVESTMENT RESTRICTIONS UNDER PRC LAWS ON OUR EDUCATION BUSINESS

Foreign Control Restriction

Pursuant to the *Special Administrative Measures for Access of Foreign Investment (Negative List)* (《外商投資准入特別管理措施(負面清單)》) (“**Negative List**”), the provision of higher education in China falls within

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the “restricted” category of foreign investment activities. In particular, this means: (a) the catalogue explicitly restricts foreign-invested higher education institutions to Sino-foreign cooperation ventures (“**Sino-foreign Schools**”), meaning that foreign investors (such as our Company, “**foreign party**”) may only operate higher education institutions in China by cooperating with PRC incorporated entities (“**domestic party**”) that comply with the Sino-foreign Regulation (defined below); and even in such circumstances, and (b) the domestic party must play a dominant role in the Sino-foreign School (“**Foreign Control Restriction**”), meaning that (i) the schools’ principals or chief executives must be PRC nationals, and (ii) the domestic party’s representatives must account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign School (collectively, the “**governing body**”), as the case may be, depending on the governing structure adopted by the Sino-foreign School.

Qualification Requirements

Even if a Sino-foreign cooperation meets the Foreign Control Restriction, pursuant to the *Regulation on Operating Sino-foreign Cooperative Schools of the PRC* (中華人民共和國中外合作辦學條例), promulgated by the Stated Council in 2003 and amended on 18 July 2013 and 2 March 2019 (the “**Sino-foreign Regulation**”) and further interpreted by its implementation measures, the foreign party in a Sino-foreign School must be a foreign education institution capable of providing quality education outside of China (the “**Qualification Requirements**”).

Foreign Ownership Restriction

Pursuant to the *Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital into the Fields of Education and Promoting the Healthy Development of Private Education* (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見), promulgated by the MOE on 18 June 2012, the foreign portion of the total investment in a Sino-foreign School should be below 50% (the “**Foreign Ownership Restriction**”).

Sino-foreign Schools in Liaoning, Guangdong, and Sichuan provinces

With the assistance of our PRC Legal Adviser, we consulted the International Cooperation and Exchange Office (國際交流合作處) and the Development Planning Office (發展規劃處) of the Educational Department of Liaoning Province on 22 May 2019, the Policy and Regulation Office (政策法規處) and the Cooperation and Exchange Office (交流合作處) of the Department of Education of Guangdong Province on 5 March 2019, the Development Planning Office (發展規劃處) of the Education Department of Sichuan Province on 17 June 2019, and the International Cooperation and Exchange Office (國際合作交流處) of the Education Department of Sichuan Province on 12 June 2019. Based on such consultations, we were given to understand that:

- (a) the Foreign Control Restriction, the Qualification Requirements and the Foreign Ownership Restriction apply to Sino-foreign Schools engaging in higher education in Liaoning, Guangdong, and Sichuan provinces;
- (b) no implementing measures or specific guidance regarding the Qualification Requirements had been promulgated pursuant to the *Regulation on Sino-foreign Cooperation in Operating Schools of the PRC* in Liaoning, Guangdong, or Sichuan provinces;

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- (c) no Sino-foreign School providing higher education, the domestic party of which is a private educational institution, had ever been approved in Liaoning, Guangdong, or Sichuan provinces;
- (d) it is not practicable to convert our universities into Sino-foreign Schools; and
- (e) the execution and performance of the Contractual Arrangements do not require any prior filing or approval.

Our PRC Legal Adviser is of the view that each of the International Cooperation and Exchange Office (國際交流合作處) and the Development Planning Office (發展規劃處) of the Educational Department of Liaoning Province, the Policy and Regulation Office (政策法規處) and the Cooperation and Exchange Office (交流合作處) of the Department of Education of Guangdong Province, the Development Planning Office (發展規劃處) and the International Cooperation and Exchange Office (國際合作交流處) of the Education Department of Sichuan Province is competent to provide the above confirmation, since the International Cooperation and Exchange Office (國際交流合作處) of the Educational Department of Liaoning Province, the Cooperation and Exchange Office (交流合作處) of the Department of Education of Guangdong Province, and International Cooperation and Exchange Office (國際合作交流處) of the Education Department of Sichuan Province are the responsible departments in their respective provinces to accept and perform a preliminary or final review of the applications for establishing Sino-foreign schools providing higher education, and the Development Planning Office (發展規劃處) of the Education Department of Sichuan Province and the Educational Department of Liaoning Province and the Policy and Regulation Office (政策法規處) of the Department of Education of Guangdong Province are the responsible departments in their provinces to oversee the private higher education institutions in their respective provinces.

Based on the consultations above, our PRC Legal Adviser has advised us that, as of the Latest Practicable Date, there are no applicable PRC Laws providing clear guidance or interpretation on the Qualification Requirements, particularly considering that no implementation measures or specific guidance are available for the relevant provinces in which our three universities are located.

Based on the foregoing, our Directors consider that it is not practicable for us to seek to apply to reorganise any of our universities as a Sino-foreign School.

FOREIGN INVESTMENT RESTRICTIONS UNDER PRC LAWS ON OUR PUBLISHING BUSINESS

Pursuant to the Negative List, foreign investment in the publication of audio-visual products and electronic publications and in the provision of internet publishing services is prohibited.

Based on (a) the fact that PRC Laws restrict foreign ownership in our Education Business (through the Foreign Control Restriction and the Foreign Ownership Restriction), and following consultations with the competent government authorities in Liaoning, Guangdong, and Sichuan provinces, the understanding that we are not able to presently meet the Qualification Requirements (due to, among other reasons, there being no implementing measures or specific guidance on the Qualification Requirements in Liaoning, Guangdong, and

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Sichuan provinces, and there is no applicable PRC Laws providing clear guidance or interpretation on the Qualification Requirements); and (b) foreign investment is prohibited in our Publishing Business, our PRC Legal Adviser has advised us that it is not possible to convert our three universities into sino-foreign schools, nor is it possible for the JV to directly hold any equity interest in Neusoft Electronic Press. Accordingly, our PRC Legal Adviser is of the view that our Contractual Arrangements, which cover our Education Business and our Publishing Business, are narrowly tailored.

We further explain why we have adopted our Contractual Arrangements in sub-sections “— Reasons why we have adopted the Contractual Arrangements for our Education Business” and “— Reasons why we have adopted the Contractual Arrangements for our Publishing Business” in “— Overview of our Contractual Arrangements” below.

OVERVIEW OF OUR CONTRACTUAL ARRANGEMENTS

Reasons why we have adopted the Contractual Arrangements for our Education Business

Under the Sino-foreign Regulation and applicable PRC Laws, our Education Business, which involves higher-education institutions in Liaoning province, Guangdong province and Sichuan province (collectively, the “**Relevant Provinces**”) are restricted by the Foreign Control Restriction, and required to satisfy the Qualification Requirements and comply with the Foreign Ownership Restriction (collectively, the “**Foreign Investment Restrictions**”).

Given that: (i) all of the principals of our universities are PRC nationals; and (ii) all of the directors of our universities are Chinese nationals, our PRC Legal Adviser is of the view that our universities are in full compliance with the Foreign Control Restriction.

Notwithstanding our compliance with the Foreign Control Restriction, our PRC Legal Adviser has advised us that no detailed rules have been released as to what specific criteria must be met by the foreign party (such as our Company) to demonstrate to the relevant authorities that it meets the Qualification Requirements.

Accordingly, given Foreign Investment Restrictions, we cannot hold direct controlling interests in our universities and, instead, we retain ownership over these entities and their businesses through the Contractual Arrangements. See “— Legality of our Contractual Arrangements” for the views of our Directors and our PRC Legal Adviser on the legality of the Contractual Arrangements.

Circumstances under which we will unwind our Contractual Arrangements with respect to our Education Business

In the event that the Qualification Requirements are removed, or we are able to meet Qualification Requirements, depending on whether and when some or all of the remaining Foreign Investment Restrictions are

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removed, we will unwind our Contractual Arrangements (with respect to the Education Business) in the following manner:

- (a) Both Foreign Control Restriction and Foreign Ownership Restriction remain We will partially unwind our Contractual Arrangements, such that we: (i) acquire the right to appoint up to 50% of the governing body of our universities, and control the voting power of the other members of the governing body appointed by the domestic party through the Contractual Arrangements (in compliance with the Foreign Control Restriction); and (ii) directly hold less than 50% of the equity interests in our School Sponsors (in compliance with the Foreign Ownership Restriction). We will maintain the Contractual Arrangements to retain ownership over our universities and to consolidate their financials into our accounts.
- (b) Only Foreign Ownership Restriction remains We will partially unwind our Contractual Arrangements, such that we: (i) acquire the right to appoint all members of the governing body of our universities (as we will no longer be restricted by the Foreign Control Restriction); and (ii) directly hold less than 50% of the equity interests in our School Sponsors (in compliance with the Foreign Ownership Restriction). We will maintain the Contractual Arrangements to retain ownership over our universities and to consolidate their financials into our accounts.
- (c) Only Foreign Control Restriction remains Notwithstanding we will be able to hold a majority interest in our universities, according to our PRC Legal Adviser, it is commonly understood that the Foreign Control Restriction would still require a domestic interest in our three universities, which is entitled to appoint not less than 50% members of the governing body of our university, and the foreign party would not be able to operate our three universities by itself. Accordingly, we will partially unwind our Contractual Arrangements, such that we will: (i) acquire the right to appoint up to 50% of the governing body of our universities, and (ii) hold the maximum percentage of school sponsor interests in our universities as permitted under PRC Laws. We will control the voting rights of members appointed by the domestic party onto the governing body, and the minority school sponsor interests held by such domestic party through our Contractual Arrangements (or similar contractual agreements) in order to consolidate the financials of our three universities into our accounts.
- (d) Neither Foreign Control Restriction nor Foreign Ownership Restriction remains We will fully unwind our Contractual Arrangements with respect to our Education Business such that we will: (i) acquire the right to appoint all members of the governing body of our universities (as we will no longer be restricted by the Foreign Control Restriction); and (ii) hold the maximum percentage of school sponsor interest in our universities as permitted under PRC Laws.

We note that our Contractual Arrangements cover both the Education Business and the Publishing Business. As such, even if none of the Foreign Control Restriction, the Foreign Ownership Restriction and the Qualification Requirements apply, and our Contractual Arrangements are fully unwound with respect to our

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Education Business, the Contractual Arrangements may still be required to remain with respect to our Publishing Business. See “— Circumstances under which we will unwind our Contractual Arrangements with respect to the Relevant Business” for further discussion of this situation.

Our plan to comply with the Qualification Requirements

Our PRC Legal Adviser is of the view that, while Sino-foreign Schools are able to be jointly established by both foreign and domestic qualified educational institutions, no detailed rules have been released as to what specific criteria must be met by the foreign party (such as our Company), such as the length of experience in the relevant educational industry, and what form and extent of ownership is required in the foreign jurisdiction, in order to demonstrate that the foreign party meets the Qualification Requirements.

Nevertheless, we have implemented the following plan that represents our commitment and our meaningful endeavours to satisfy the Qualification Requirements (and should the criteria to be met by a foreign party under the Qualification Requirements be further clarified) (the two collaborations below, collectively the “Cooperations”):

- (a) on 28 May 2019, Neusoft Education HK entered into a memorandum of understanding with The University of Aizu (“**Aizu**”), an university in Japan accredited by the Ministry of Education, Culture, Sports, Science and Technology, Japan, pursuant to which we and Aizu agreed to cooperate in international higher education, including, in particular:
 - (i) information exchange concerning higher education, scientific research, and related activities;
 - (ii) provision of books, publications and documents, including curricula for higher education and scientific research;
 - (iii) mutual exchange of faculty and researchers;
 - (iv) joint research activities by faculty members or researches, and cooperation in applying and promoting national or international projects;
 - (v) mutual visits and/or exchange of students; and
 - (vi) establishing overseas bases in China and Japan, respectively,

pursuant to the memorandum of understanding with Aizu, our Group has established the Aizu-Neusoft Innovation Hub and the Neusoft Education Technology Co., Ltd. Contact Office on Aizu’s campus, as part of our Group’s efforts to establish overseas bases in Japan and to facilitate information and resource exchange with Aizu. We plan to start sending teachers to Aizu in 2021 for exchange and to gain experience in running schools in Japan.

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- (b) on 18 June 2019, Neusoft Education HK entered into a memorandum of understanding with IT Innovation Ltd. (IT創新股份有限公司) (“**IT Innovation**”), pursuant to which IT Innovation agreed to provide consulting services to Neusoft Education HK for the provision of higher-education in Japan, on the following areas subject to further agreement:
 - (i) professional knowledge on education and training;
 - (ii) our cooperation and collaboration with and/or acquisition of Japanese colleges and universities specialising in IT education; and
 - (iii) exchange and secondments for teacher and personnel.
- (c) our Group is in the process of communicating and negotiating with certain experienced and reputable overseas education services providers on potential collaboration opportunities, including expanding our Group’s school network abroad.
- (d) we envisage operating a higher-education institution in Japan, solely or in cooperation with our partners. The implementing scheme is to be determined, however, we plan to establish a company in Japan with an initial investment of USD150,000, which will serve as the vehicle through which our Group will perform preparatory work and as the entity to operate and manage the Japanese higher-education institution that we will sponsor in the future. We have engaged an agent to assist us with better understanding and navigating the business environment in Japan and we are preparing relevant documents in relation to establishing a subsidiary in Japan. We plan to complete the establishment of our Japanese subsidiary by the second half of 2020. We expect to commence operations in the education sector in Japan as soon as all applicable regulatory approvals have been obtained, all preparatory work has been completed, and when our Directors believe it is in the best interests of our Group to do so.
- (e) it is intended that Neusoft Education HK will serve as a platform to:
 - (i) negotiate and execute contracts for international business cooperation; and
 - (ii) invest in education businesses overseas as and when appropriate.

Based on the steps taken above, our PRC Legal Adviser is of the view that:

- (a) there are no applicable PRC Laws providing clear guidance or interpretation on the Qualification Requirements, in particular, what specific criteria must be met by the foreign party (such as the level of experience in overseas educational industry) so as to fulfil the Qualification Requirements;
- (b) notwithstanding the foregoing in (a) above, the higher-education institution to be established by us in Japan or another overseas higher-education institution that we may establish in the future, which will

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provide university level education service, shall meet the basic requirements under the Sino-foreign Regulation;

- (c) if the higher-education institution to be established by us in Japan, or any other overseas higher-education institution that we may establish in the future, successfully commences operation and gains sufficient level of experience, it is likely that we can fulfil the Qualification Requirements and will be able to own, control and operate our existing universities in the PRC wholly or partly through such overseas higher-education institution, subject to compliance with any other legal restrictions including the Foreign Ownership Restriction and the Foreign Control Restriction and approval from the relevant education authorities in the PRC, and

in light of the steps taken by us highlighted above, the limited experience that we had in operating overseas education institutions as of the Latest Practicable Date and the lack of clear guidance or interpretation on the Qualification Requirements issued by the relevant competent authorities, our PRC Legal Adviser is of the view that we have taken all reasonable steps towards fulfilling the Qualification Requirements under the current circumstances.

To keep our public investors clearly informed, we will disclose our progress in the Cooperations and the establishment of the Japanese subsidiary and the Japanese higher-education institution, as well as updates on the Qualification Requirements, in our annual and interim reports after the Listing, as and when appropriate.

We undertake to the Stock Exchange that we will:

- (a) under the guidance of our PRC Legal Adviser, continue to keep ourselves updated on all relevant regulatory developments and guidance relating to the Qualification Requirements; and
- (b) provide periodic updates in our annual and interim reports after the Listing to inform our Shareholders of the actions undertaken towards meeting the Qualification Requirements.

Reasons why we have adopted the Contractual Arrangements for our Publishing Business

Under the applicable PRC Laws, our Publishing Business, which involves publishing audio-visual products and electronic publications and providing internet publishing services in China and primarily in Liaoning province, is prohibited from any foreign investment (the “**Foreign Investment Prohibition**”).

Accordingly, given that Foreign Investment Prohibition, we cannot hold any direct interest in Neusoft Electronic Press (being the entity to operate the Publishing Business) and, instead, we retain ownership over Neusoft Electronic Press and its businesses through the Contractual Arrangements. See “— Legality of our Contractual Arrangements.”

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Circumstances under which we will unwind our Contractual Arrangements with respect to the Relevant Business

Our Publishing Business is operated by Neusoft Electronic Press, which is a wholly-owned subsidiary of, but is a separate legal entity from, Dalian University. According to the development of applicable foreign investment restrictions concerning our Education Business and our Publishing Business, we will reorganise our Group accordingly, in a timely manner in accordance with prevailing Laws, in order to allow our Company to directly hold the maximum amount of equity interest in our Relevant Business, and will unwind our Contractual Arrangements to the greatest extent possible as permitted by PRC Laws to achieve direct equity ownership in our Consolidated Affiliated Entities.

In circumstances where the Foreign Investment Prohibition remains, we will maintain our Contractual Arrangements with respect to the Publishing Business, and depending on the degree of foreign investment restrictions over on our Education Business, we will partially or fully unwind our Contractual Arrangements with respect to our Education Business in the following manner.

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| (a) Part of the Foreign Investment Restrictions are removed for our Education Business | We will: (i) transfer Neusoft Electronic Press from Dalian University to our Operating Entity, or another entity that would remain under the Contractual Arrangements; and (ii) partially unwind our Contractual Arrangements with respect to the Education Business to the maximum extent permissible under PRC Laws and to maintain ownership over our universities and consolidate their financials into our accounts. See “— Circumstances under which we will unwind our Contractual Arrangements with respect to our Education Business” for our detailed plan to unwind our Contractual Arrangements in the different circumstances under which the Foreign Investment Restrictions would be lifted with respect to our Education Business. |
| (b) All of the Foreign Investment Restrictions are removed for our Education Business | We will: (i) transfer Neusoft Electronic Press from Dalian University to our Operating Entity, or another entity that would remain, or be created, under the scope of the Contractual Arrangements; and (ii) fully unwind our Contractual Arrangements with respect to the Education Business. |

In the event that the Foreign Investment Prohibition is removed, we will unwind our Contractual Arrangements with respect to the Publishing Business, such that we will hold the maximum percentage of equity interest in our Consolidated Affiliated Entities (with respect to the Publishing Business) as permitted under PRC Laws in the following manner:

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| (a) Foreign Investment Restrictions remains for our Education Business | We will: (i) transfer Neusoft Electronic Press (and any other entity that operates our Publishing Business) from Dalian University (and any other Consolidated Affiliated Entity, if applicable) to a subsidiary in which we hold direct equity interests (such as our JV or Dalian Education); and (ii) unwind our Contractual Arrangements with respect to the Publishing Business to the maximum extent |
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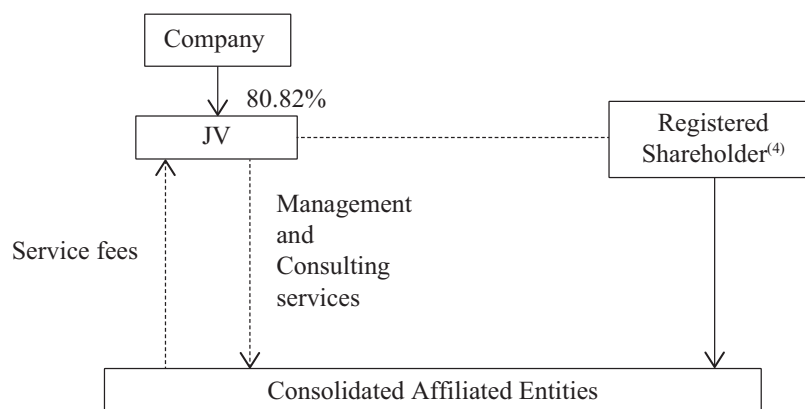
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possible. Our Education Business will remain under the Contractual Arrangements, and our Contractual Arrangements will be unwound with respect to the Education Business according to our disclosure in “— Circumstances under which we will unwind our Contractual Arrangements with respect to our Education Business.”

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| (b) Foreign Investment Restrictions is removed for our Education Business | (i) Our JV will exercise the call option under the Exclusive Call Option Agreement (as defined below) and unwind our Contractual Arrangements such that we are able to directly operate the Education Business and Publishing Business without our Contractual Arrangements; and (ii) the Registered Shareholder of our Operating Entity will return to our Group, to the largest extent permissible by PRC Laws, any consideration received by the Registered Shareholder from our Group in our Group’s acquisition of equity interests in our Consolidated Affiliated Entities. |
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OPERATION OF OUR CONTRACTUAL ARRANGEMENTS

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



Notes:

- (1) “→” denotes direct legal and beneficial ownership in: (a) the equity interests of our Operating Entity and other entities within the Consolidated Affiliated Entities, and (b) the sponsor interests in our universities.
- (2) “-->” denotes the contractual relationship.
- (3) “-.-” denotes control by our JV over the Registered Shareholder and Consolidated Affiliated Entities under the Contractual Arrangements through: (a) powers of attorney to exercise all of the Registered Shareholder’s rights in our Operating Entity and our universities; (b) exclusive options to acquire all or part of the Registered Shareholder’s equity interest in our Operating Entity and sponsor interests in our universities; and (c) equity pledge over the Registered Shareholder’s equity interest in our Operating Entity.
- (4) See the notes to “Corporate structure before the Reorganisation” and Notes 8 to 12 to “Corporate structure before the Global Offering” in “History, Reorganisation and corporate structure — Corporate structure.”

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SUMMARY OF THE MATERIAL TERMS OF OUR CONTRACTUAL ARRANGEMENTS

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

Main agreements

Exclusive Management Consultancy and Business Cooperation Agreement

Under the exclusive management consultancy and business cooperation agreement dated 21 June 2019, entered into between (i) our JV, (ii) our Consolidated Affiliated Entities, and (iii) the Registered Shareholder of our Operating Entity (the “**Exclusive Management Consultancy and Business Cooperation Agreement**”), our JV has the exclusive right, or the right to designate a third party, to provide each of our Consolidated Affiliated Entities with corporate management consulting services, educational management consulting services, intellectual property licensing, technical support and business support services.

Without our JV’s prior written consent, none of our Consolidated Affiliated Entities may accept from, or establish any cooperation with, a third party in relation to any services covered by the Exclusive Management Consultancy and Business Cooperation Agreement. Our JV owns all intellectual property rights arising out of the performance of this agreement.

In exchange, our Consolidated Affiliated Entities agree to pay the entirety of their total income (net of costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld) to our JV as the service fee.

Under the Exclusive Management Consultancy and Business Cooperation Agreement, without prior written approval from our JV, our Consolidated Affiliated Entities shall not enter into any transaction (except for those transactions entered into in the ordinary course of business) that may affect its assets, obligations, rights or operations, including but not limited to: (i) the provision of any security or guarantee in favour of a third party or the creation of any encumbrances in relation to its assets or interest, except to secure the performance of its own obligations; (ii) the entry into of any loan or debt obligations in favour of a third party; and (iii) in relation to a third party, the disposal, acquisition or otherwise dealing of any assets (including but not limited to intellectual properties) with a value higher than RMB500,000.

In addition, under the Exclusive Management Consultancy and Business Cooperation Agreement, without the prior written consent of our JV, none of our Consolidated Affiliated Entities may change or remove the members of its board of directors or replace any member of its senior management. Our JV also has the right to appoint the directors, general managers, financial controllers and other senior managers of our Consolidated Affiliated Entities. Our JV has absolute control over the distribution of dividends or any other amounts to the shareholders of our Consolidated Affiliated Entities as our Consolidated Affiliated Entities and their shareholders have undertaken not to make any distribution without our JV’s prior written consent.

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Exclusive Call Option Agreement

Under the exclusive call option agreement dated 21 June 2019, entered into between (i) our JV, (ii) the Registered Shareholder of our Operating Entity, and (iii) our Operating Entity and our universities (the “**Exclusive Call Option Agreement**”), the Registered Shareholder unconditionally and irrevocably agreed to grant our JV an exclusive option to purchase all or part of the equity interest in our Operating Entity and/or sponsor interests in our universities, respectively, held by the Registered Shareholder (including any additional sponsor interests in our universities obtained by the Registered Shareholder in the future) for the minimum amount of consideration permitted by applicable PRC Laws, under circumstances in which our JV or its designated third party is permitted under PRC Laws to acquire all or part of the equity interests of our Operating Entity and universities.

Where the purchase price is required by PRC Laws to be an amount other than nil consideration, the Registered Shareholder undertakes to return the amount of purchase price they have received to our JV or its designated third party. We have the sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full. The key factor for us to decide whether to exercise the option is whether the Foreign Investment Restrictions in relation to the Education Business will be removed in the future, the likelihood of which we were not in a position to know or comment on as at the Latest Practicable Date.

To prevent the flow of our Consolidated Affiliated Entities’ value and assets to their respective registered shareholders, pursuant to the Exclusive Call Option Agreement, none of the assets of our Operating Entity or universities are to be transferred or otherwise disposed of without the written consent of our JV. In addition, under the Exclusive Call Option Agreement, no transfer of, or encumbrance over, the sponsor interests and/or equity interests, as the case may be, in our Operating Entity or Universities is permitted without our JV’s prior written consent.

Any distribution of profit or dividend from our Operating Entity and universities must be immediately transferred or paid (subject to the relevant tax payment being made under applicable laws and regulations) to our JV (or its designated party). If our JV exercises its option, all or any part of the equity interests or sponsor interests (as the case may be) in the our Operating Entity and universities would be transferred to our JV and the benefits of ownership in the equity interests or sponsor interests (as the case may be) would flow to our JV and our Shareholders.

Equity Pledge Agreement

Each of our universities is a private non-enterprise entity (民辦非企業單位). As advised by our PRC Legal Adviser, under PRC Laws, entities or individuals who establish a private non-enterprise entity are generally referred to as “sponsors” rather than “owners” or “shareholders”, and the economic substance of “sponsor interest” with respect to a private non-enterprise entity is substantially similar to that of “ownership” from a legal, regulatory and tax perspective. Under PRC Laws, our School Sponsors’ sponsor interests in our universities are not capable of being pledged as security in favour of our JV. Our PRC Legal Adviser has advised us that any pledge of sponsor interests would not be registrable or enforceable under PRC Laws.

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Accordingly, we have entered into an equity pledge arrangement in relation to the equity interest in our Operating Entity held by its Registered Shareholder. Under the equity pledge agreement dated 21 June 2019, entered into by and between (i) our JV, (ii) the Registered Shareholder of our Operating Entity, and (iii) our Operating Entity (the “**Equity Pledge Agreement**”), the Registered Shareholder unconditionally and irrevocably pledged all of the equity interests in our Operating Entity in favour of our JV in order to guarantee the performance of the obligations of the Registered Shareholder, our Operating Entity, the School Sponsors and our universities under the Contractual Arrangements. Under the Equity Pledge Agreement, the Registered Shareholder has agreed that, without the prior written consent of our JV, it would not transfer or dispose of the pledged equity interests or create or allow a third party to create any encumbrance on the pledged equity interests that would prejudice our JV’s interest.

The pledge in respect of our Operating Entity takes effect upon completion of registration with the relevant administration for industry and commerce and will remain valid until: (i) the satisfaction of all contractual obligations by the Registered Shareholder, our Operating Entity, the School Sponsors and our universities under the Exclusive Management Consultancy and Business Cooperation Agreement, Exclusive Call Option Agreement and the Powers of Attorney (as defined below), or (ii) the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreement, the Exclusive Call Option Agreement and the Powers of Attorney, whichever is later.

Our PRC Legal Adviser confirms that the Equity Pledge Agreement has been duly registered with the relevant PRC legal authority pursuant to PRC Laws.

Documents supporting the structural integrity and stability of our main agreements

Power of Attorneys

The Registered Shareholder of our Operating Entity, the School Sponsors and Dalian University have each executed an irrevocable power of attorney dated 21 June 2019 (each a “**Power of Attorney**”, and collectively, the “**Powers of Attorney**”) granting our JV (or a person designated by our JV, including our Directors and their successors and any liquidators substituting our Directors, but excluding anyone who may give rise to a conflict of interest), as its attorney, with authorisation to vote on all matters that require our Consolidated Affiliated Entities’ shareholders’ or school sponsors’ approval and on which the respective grantor is entitled to vote, including the right to appoint directors and vote on the director’s behalf on the boards of our universities.

To prevent the Powers of Attorney from giving rise to a conflict of interest, each of the School Sponsors and Dalian University, under their respective Powers of Attorney, irrevocably undertook that:

- (a) the authorisations granted under the Powers of Attorney have not and would not lead to any conflict of interest between our JV (or its parent companies) and our Consolidated Affiliated Entities; and
- (b) if the entity or any direct or indirect shareholder of the entity or their delegated representatives concurrently serve as the Director or senior management of our Company, the authorisations granted under the Powers of Attorney shall be exercised in a manner in favour of our Company.

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Through the Powers of Attorney, our JV has effectively acquired control over the Consolidated Affiliated Entities through shareholder or school sponsors' votes, which allows our JV to control, among other matters, the composition of the board of directors for our Consolidated Affiliated Entities. As advised by our PRC Legal Adviser, the Powers of Attorney are valid, legal and binding on the parties under PRC Laws.

Undertaking Letters

To support the stability and continued validity and enforceability of our Contractual Arrangements, and in particular the Equity Pledge Agreement, our JV received irrevocable undertakings (承諾函) on 21 June 2019 and 8 October 2019 (collectively, the “**Undertaking Letters**”) from (a) each of the following shareholders of Neusoft Holdings (the Registered Shareholders): Dalian Kang Ruidao, Dalian Siwei, LIU Ming, Alpine China, Northeastern University Group, PICC Life, PICC Health, Yida Holdings; and (b) the following shareholders and/or controlling persons of the shareholders of Neusoft Holdings: Dr. J. Liu, the general partner of Dalian Kang Ruidao, Alpine Electronics, Baidu Online Network Technology (Beijing) Co., Ltd. and the three individual shareholders of Yida Holdings. Pursuant to the Undertaking Letters, the undertaking shareholders would not (or procure that respective shareholder of the Registered Shareholder not to, as the case may be) enter into an arrangement (including pledge, sale, disposal or creation of other third-party rights) in respect of the equity interests held by them (or that respective shareholder) in the Registered Shareholder that may reduce either the effectiveness of the Registered Shareholder's equity pledge to our JV under the Contractual Arrangements or the stability of the Contractual Arrangements, unless: (i) they, except for PICC Life and PICC Health, have obtained our JV's consent; and (ii) the counterparties or beneficiaries of the proposed arrangement have executed similar written undertaking(s) to the effect that they will not affect the performance of our Contractual Arrangements.

The main purpose of the Undertaking Letters is to further support the stability of the operation of the Contractual Arrangements (and the VIE structure that is created by the Contractual Arrangements and described at “— Overview” and “— Operation of our Contractual Arrangements”, the “**VIE Structure**”). It is envisioned that the Undertaking Letters would achieve this purpose through, among others:

- (a) preventing the undertaking shareholders from entering into any arrangement involving their respective direct or indirect interests in the Registered Shareholder that would adversely affect the first priority pledge granted by the Registered Shareholder to our JV under the Equity Pledge Agreement;
- (b) requiring the undertaking shareholders to refrain from taking any action that would harm the operation of the Contractual Arrangements (and the VIE Structure that it underpins); and
- (c) ensuring that the undertaking shareholders are aware of, and directly support, the Registered Shareholder's entry into, and obligations under, the Contractual Arrangements; and that any new person that proposes to obtain an interest in the Registered Shareholder would, before acquiring such interest, give similar undertakings to our JV to maintain the stability of the Contractual Arrangements (and the VIE Structure that it underpins).

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The Registered Shareholder is a corporate legal entity. It has separate legal personality and is legally bound by, and is required to perform under, the terms of the Contractual Arrangements. Notwithstanding the fact that the Registered Shareholder, being a corporate legal entity, is under substantively the same obligations, and legal responsibility, to perform under the Contractual Arrangements, as those that would be imposed on a natural person in the position of the Registered Shareholder, the following factors, among others, provide further protection in maintaining the operation and effectiveness of our Contractual Arrangements:

- (a) the Undertaking Letters given by the undertaking shareholders ensure that the ultimate controlling entities or natural persons behind the Registered Shareholder are supportive of, and would not undermine the stability of, or jeopardise the Registered Shareholder's performance under, the Contractual Arrangements;
- (b) although the undertaking shareholders may enter into arrangements that may directly or indirectly concern interests in the Registered Shareholder, as advised by our PRC Legal Adviser, under PRC Laws, these arrangements (which include any change in the shareholders of the Registered Shareholder) would not affect the validity of the Contractual Arrangements or its legally binding effect upon the Registered Shareholder; and
- (c) the undertaking shareholders (or their associates, as defined in the Listing Rules) are also our Shareholders or shareholders of our JV; and therefore, each has a vested interest in ensuring that the parties to the Contractual Arrangements (including both the domestic and foreign parties) perform their obligations under the Contractual Arrangements and that the VIE Structure effectively ensures that control over our Consolidated Affiliated Entities vests in our Company (through our JV) and allows the economic interests of our Consolidated Affiliated Entities to flow through to our JV and that the financials of our Consolidated Affiliated Entities are able to be consolidated into the accounts of our Company.

Spousal Undertakings

Each of the spouses of Dr. J. Liu, LIU Ming, and the three ultimate beneficial owners of Yida Holdings, being all the individual ultimate beneficial owners that control the shareholders of the Registered Shareholder, has given an irrevocable spousal undertaking (collectively, the "**Spousal Undertakings**") to our Group that:

- (i) he/she has full knowledge of our JV, and has consented to the entry into of the Contractual Arrangements by our JV, the Registered Shareholder and our Operating Entity;
- (ii) he/she undertakes to execute all necessary documents and take all necessary acts to safeguard the performance of our Contractual Arrangements and to give effect to the aims and purpose of our Contractual Arrangements, and confirms and agrees to all documents executed and acts taken in relation thereto;
- (iii) any undertaking, confirmation, consent and authorisation under the Spousal Undertakings would not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease,

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consolidation or other similar events in respect of the shares in the Registered Shareholder held by its shareholders; and

- (iv) any undertaking, confirmation, consent and authorisation under the Spousal Undertakings will not be revoked, prejudiced, invalidated or otherwise adversely affected by the spouse's death, loss of or restriction on legal capacity, or by divorce or other similar events.

SUMMARY OF OTHER MATERIAL TERMS OF OUR CONTRACTUAL ARRANGEMENTS

Dispute resolution

Under the Exclusive Management Consultancy and Business Cooperation Agreement, Exclusive Call Option Agreement, and Equity Pledge Agreement (collectively, the “**Main VIE Agreements**”), where any dispute arises in connection with the interpretation or performance of the provisions of the Main VIE Agreements (“**dispute resolution clause**”): (i) the parties will negotiate in good faith to resolve the dispute; and (ii) failing that, any party may refer the dispute to the *China International Economic and Trade Arbitration Commission* (“**CIETAC**”) for arbitration, in accordance with the then-effective arbitration rules. The arbitration will be conducted in Beijing, and the language used during arbitration will be Chinese. Any arbitration award (or decision, as appropriate) will be final and binding on all parties.

The dispute resolution clause also provides that: (i) the arbitral tribunal may award remedies over the shares or assets of our Consolidated Affiliated Entities, injunctive relief (for example: for the conduct of business or to compel a transfer of assets), or the winding up of our Consolidated Affiliated Entities; and (ii) the Hong Kong courts, the Cayman Islands courts (being the place of incorporation of our Company), and Chinese courts (being the place of incorporation of our Consolidated Affiliated Entities) will also have jurisdiction to grant interim remedies.

However, our PRC Legal Adviser has advised us that, under current PRC Laws: (i) an arbitral tribunal does not have power to grant injunctive relief, nor would it be able to order the winding-up of our Consolidated Affiliated Entities; and (ii) interim remedies issued by an overseas court (such as a court in Hong Kong and the Cayman Islands) may not be recognisable or enforceable by Chinese courts. Therefore, if the Registered Shareholder or our Consolidated Affiliated Entities breach our 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 Relevant Business could be materially and adversely affected. See “Risk factors — Risks relating to our Contractual Arrangements” for further details.

Succession

Under the Exclusive Management Consultancy and Business Cooperation Agreement: (i) the rights and obligations of the parties, including those of the Registered Shareholder, will be legally binding on any assignee or successor of the parties; and (ii) if the Registered Shareholder loses its legal personality (for example, due to a merger or acquisition, dissolution or liquidation) or if a situation arises that may affect our JV's rights over the

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Registered Shareholder's shareholder interests in our Operating Entity, the successor (including any administrator or liquidator) will make all necessary arrangements and execute all necessary documents such that the rights and obligations of our Group would not be adversely affected.

Under the Powers of Attorney, in the event that the authorisation given under the Powers of Attorney are adversely affected by an event, including the grantor's loss of legal personality, the Powers of Attorney would continue to be effective over any third-party that inherits the grantors' shareholding interests.

Considering the above, and the undertakings given in the Undertaking Letters and Spousal Undertakings, our PRC Legal Adviser is of the view that: (i) the Contractual Arrangements provide us with sufficient protection, including in the event of death, bankruptcy, divorce or change in legal personality of the Registered Shareholder and its ultimate beneficial owners ("**successorship events**"); and (ii) we would still be able to enforce our rights under the Contractual Arrangements against successors should any of the successorship events occur.

Conflicts of interest

Our Contractual Arrangements have sufficient arrangements in place to address and prevent against conflicts of interest between the Registered Shareholder (or its shareholders and ultimate beneficial individual owners) and our Group. See "**— Summary of the material terms of our Contractual Arrangements — Powers of Attorney.**"

Loss sharing

Under relevant PRC Laws, neither our Company nor our JV is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, each of our Consolidated Affiliated Entities is a legal person and is solely liable for its own debts and losses with assets owned by it.

Nevertheless, given that (i) our Group conducts its businesses in China through Consolidated Affiliated Entities that hold the requisite PRC licences and approvals; and (ii) our Consolidated Affiliated Entities' financial results are consolidated into that of our Group, and meaning that under the applicable accounting principles, our business, financial condition and results of operations would be adversely affected if our Consolidated Affiliated Entities were to suffer losses, our Contractual Arrangements are tailored such that it limits, to the greatest extent possible, the potential adverse effect on our JV and our Company, that may result from any losses suffered by our Consolidated Affiliated Entities. For instance:

- (a) under the Exclusive Call Option Agreement, the assets of our Operating Entity are not to be sold, transferred or otherwise disposed of without the written consent of our JV;
- (b) under the Exclusive Call Option Agreement, the Registered Shareholder may not transfer, or permit the encumbrance of, or allow any guarantee or security to be created on, its equity interest in our Operating Entity and subsidiaries without our JV's prior written consent; and

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- (c) under the Exclusive Management Consultancy and Business Cooperation Agreement: (i) without the prior written consent of our JV, our Consolidated Affiliated Entities will not change or remove members on the boards of directors or replace any member of the senior management of our Consolidated Affiliated Entities who are appointed by our JV; (ii) our JV has the right to appoint the directors, financial controllers and other senior managers of our Consolidated Affiliated Entities; (iii) our JV has absolute control over the distribution of dividends and any other amounts to the shareholders of our Consolidated Affiliated Entities; (iv) our JV has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities; and (v) without the written consent of our JV, none of our Consolidated Affiliated Entities may enter into, among others, an acquisition or disposal of, or dealing in, assets, with a third party, where the transaction is of a value higher than RMB500,000.

Liquidation

Pursuant to the Exclusive Management Consultancy and Business Cooperation Agreement and the Exclusive Call Option Agreement, a committee designated by our JV will be established as the liquidation committee upon the winding-up of our Consolidated Affiliated Entities to manage their assets. In the event of a liquidation or dissolution, all of the remaining assets and residual interests of our Consolidated Affiliated Entities will be transferred to our JV to the maximum extent permissible under PRC Laws.

Insurance

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

Our confirmations

As at the Latest Practicable Date, we did not encounter any interference or encumbrance from PRC authorities in operating our business through the Consolidated Affiliated Entities in accordance with the Contractual Arrangements.

LEGALITY OF OUR CONTRACTUAL ARRANGEMENTS

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

- (a) our JV and our Consolidated Affiliated Entities are duly incorporated and validly existing entities in the PRC, and their respective establishment is valid, effective and compliant with relevant PRC Laws in all material respects and each of our JV and our Consolidated Affiliated Entities has obtained all necessary approvals and authorisations to execute and perform the Contractual Arrangements;
- (b) as at the date of our PRC Legal Adviser issuing its legal opinion, no PRC Laws explicitly prohibit contractual arrangements in the private education industry in the PRC. Parties to each of the arrangements are entitled to execute the agreements and perform their respective obligations thereunder, except for the provisions regarding dispute resolution and liquidation committees. Each

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of the agreements is binding on the parties thereto and none of them would be deemed as “concealment of illegal intentions with a lawful form” and void under the PRC contract law;

- (c) none of our Contractual Arrangements violate any provisions of the articles of association (as amended from time to time) of our JV and our Consolidated Affiliated Entities;
- (d) each of the Contractual Arrangements is binding on the assignees or successors of the parties thereto. In the event our Consolidated Affiliated Entities are liquidated, either our Company or our JV is entitled to enforce its rights against the assignees or successors of our Consolidated Affiliated Entities;
- (e) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from relevant PRC authorities to perform our Contractual Arrangements, except that:
 - (i) under the Exclusive Call Option Agreement, the exercise of the option by our JV to acquire all or part of the equity interests in our Consolidated Affiliated Entities are subject to approvals from, and/or registrations with, relevant PRC regulatory authorities;
 - (ii) any share pledge contemplated under the Equity Pledge Agreement will be subject to registration with the local administration bureau for industry and commerce;
 - (iii) any arbitral awards (or decisions) or foreign judgements (or orders) issued in relation to the performance of our Contractual Arrangements is subject to recognition and enforcement by the applicable PRC court;
- (f) each of our Contractual Arrangements is valid, legal and binding under PRC Laws, except for the following in relation to dispute resolution and the liquidation committee:
 - (i) our Contractual Arrangements provide that any dispute will be submitted to the CIETAC for arbitration, in accordance with the then effective arbitration rules. See “— Summary of other material terms of our Contractual Arrangements — Dispute resolution” for further details on the dispute resolution mechanism. However, as detailed above in “— Summary of other material terms of our Contractual Arrangements — Dispute resolution”, our PRC Legal Adviser has advised us that, under current PRC Laws, arbitral tribunals in China are not empowered to grant injunctive relief or make winding-up decisions; and
 - (ii) our Contractual Arrangements provide for the establishment of a liquidation committee that may not be enforceable in the event that a mandatory liquidation is required under PRC Laws. See “— Summary of other material terms of our Contractual Arrangements — Liquidation” for further details.

Given that: (a) our Contractual Arrangements are used for the purpose of enabling our Group to control our Consolidated Affiliated Entities that engage in operating private education institutions and publishing; and

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(b) current PRC Laws (i) restrict private education institutions to Sino-foreign ownership and impose Foreign Investment Restriction that are currently impracticable for us to meet or obtain, and (ii) prohibit foreign ownership of publishing businesses, our Directors are of the view that our Contractual Arrangements are narrowly tailored.

Our Directors confirm that our Contractual Arrangements were entered into between the relevant parties based on their actual and genuine intentions, and that the service fees are paid by our Consolidated Affiliated Entities as consideration for obtaining genuine services of substance provided by our JV, which include, among other things, providing comprehensive corporate management consulting services, education management consulting services, intellectual property licensing, technical support and business support services, as required by our Consolidated Affiliated Entities in their ordinary course of business.

According to our PRC Legal Adviser, no current PRC Laws expressly restrict or prohibit our JV's contractual rights to receive service fees from our Consolidated Affiliated Entities for the services rendered under the Contractual Arrangements.

With the assistance of our PRC Legal Adviser, we consulted (a) the Educational Department of Liaoning Province (遼寧省教育廳) (on 22 May 2019), the Education Department of Sichuan Province (四川省教育廳) (on 17 June 2019), and the Department of Education of Guangdong Province (廣東省教育廳) (on 5 March 2019), being the relevant competent government authorities, to confirm matters relating to our universities and the Education Business, and (b) the Liaoning press and news publication bureau (遼寧省委宣傳部(省新聞出版局)) (on 10 June 2019), to confirm matters relating to our Publishing Business in the relevant provinces. Based on the consultations, we were given to understand that (a) the payment of service fees is made on the basis of a service relationship between our JV and our universities, which would not be regarded as "reasonable returns" or profits being distributed to the school sponsors of our universities; and (b) we would not need the respective bureau's approval for the entry into the Contractual Arrangements.

We have been advised by our PRC Legal Adviser, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC Laws. Accordingly, there can be no assurance that relevant PRC authorities will not, in the future, take a view that is contrary to our PRC Legal Adviser's opinion above. We have been further advised by our PRC Legal Adviser that if the PRC government finds that the Contractual Arrangements do not comply with PRC government restrictions on foreign investment in the Relevant Business, we could be subject to severe penalties, which could include:

- (i) revoking the business and operating licences of our JV and our Consolidated Affiliated Entities;
- (ii) restricting or prohibiting related party transactions between our JV and our Consolidated Affiliated Entities;
- (iii) imposing fines or other requirements with which our Group or our Consolidated Affiliated Entities may find difficult or impossible to comply;
- (iv) requiring our Group or our Consolidated Affiliated Entities to restructure the relevant ownership structure or operations; or

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- (v) restricting or prohibiting the use of any proceeds from the Global Offering to finance our business and operations in China.

The imposition of any of these penalties could have a material adverse effect on our ability to conduct our business. See “Risk factors — Risks relating to our Contractual Arrangements.”

ACCOUNTING ASPECTS OF OUR CONTRACTUAL ARRANGEMENTS

Consolidation of financial results of our Consolidated Affiliated Entities

Under the Exclusive Management Consultancy and Business Cooperation Agreement, in consideration for the services provided by our JV, each of our Consolidated Affiliated Entities will pay service fees. The service fees (subject to our JV’s adjustment) are equal to the entirety of the total income of our Consolidated Affiliated Entities (net of costs, expenses, taxes and payments required by relevant laws and regulations to be reserved or withheld). Our JV may adjust the service fees following negotiations with other relevant parties and has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, our JV has the ability, at its sole and full discretion, to extract substantially all of the economic benefits of our Consolidated Affiliated Entities.

Additionally, under the Exclusive Management Consultancy and Business Cooperation Agreement, our JV’s written consent must be obtained before any distribution of dividends is made. As such, and together with the authorities granted to our JV under the Powers of Attorney, our JV has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities. Any profit distribution or dividend from our Consolidated Affiliated Entities must be immediately paid or transferred (subject to the relevant tax payment being made under relevant laws and regulations) to our Company.

As a result of our Contractual Arrangements, our Company has obtained control of the Consolidated Affiliated Entities through our JV and, at our Company’s sole and full discretion, can receive substantially all the economic returns generated by our Consolidated Affiliated Entities in proportion to its indirect shareholding interest in our JV. Accordingly, our Consolidated Affiliated Entities’ results of operations, assets and liabilities, and cash flows are consolidated into that of our Company.

For the reasons above, our Directors consider that the Company can consolidate the financial results of the Consolidated Affiliated Entities into that of our Group as if the financial results were those of our Company’s subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in Note 2.2 in “Accountant’s Report” set out in Appendix I.

DEVELOPMENTS IN FOREIGN INVESTMENT RESTRICTIONS IN CHINA

Foreign Investment Law

On 15 March 2019, the 2nd session of the 13th National People’s Congress enacted the Foreign Investment Law (the “**FIL**”), which replaced the *Law on Sino-Foreign Equity Joint Ventures*, the *Law on Sino-Foreign Contractual Joint Ventures* and the *Law on Foreign-Capital Enterprises*, and became the legal foundation for

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foreign investment law in China. The FIL stipulates three major forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment.

Impact and potential consequences of the FIL on our Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, and has been adopted by our Company in the form of our Contractual Arrangements to establish control over our Consolidated Affiliated Entities by our JV, and through which we operate our Relevant Business in China. If the then laws, administrative regulations and provisions of the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole, and each of the agreements comprising our Contractual Arrangements, will not be materially affected and will continue to be legal, valid and binding on the parties.

Notwithstanding this, the FIL stipulates that foreign investment includes “*investment by foreign investors through such other methods under laws, administrative regulations or provisions prescribed by the State Council.*” There is the possibility that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether our Contractual Arrangements would be deemed in violation of foreign investment laws and regulations and how our Contractual Arrangements would then be handled by relevant PRC authorities. Therefore, there is no guarantee that our Contractual Arrangements, and the business of our Consolidated Affiliated Entities, will not be materially and adversely affected in the future due to changes in PRC Laws. See “Risk factors — Risks relating to our Contractual Arrangements” for more details.

COMPLIANCE WITH OUR CONTRACTUAL ARRANGEMENTS

We have adopted the following measures to ensure our Group’s effective implementation, operation of, and compliance with, our Contractual Arrangements:

- (i) we will submit any major issues arising from implementing or complying with our Contractual Arrangements to our Board for discussion and review;
- (ii) our Board will review the overall performance of, and compliance with, our Contractual Arrangements at least annually;
- (iii) our Company will disclose the overall performance of, and compliance with, our Contractual Arrangements in our annual reports; and
- (iv) our Company will engage legal advisers and other professional advisers (if necessary) to assist our Board with reviewing the implementation of our Contractual Arrangements, and to deal with specific issues or matters arising out of our Contractual Arrangements.