BACKGROUND TO THE CONTRACTUAL ARRANGEMENTS

Our Consolidated Affiliated Entities are currently the Onshore Holdcos and their respective subsidiaries, which were all established under the laws of mainland China.

As described below, investment in certain areas of the industry in which we currently and may operate are subject to restrictions under current mainland China laws and regulations. After consultation with JunHe LLP, our legal advisor as to the laws of mainland China, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in mainland China subject to foreign investment restrictions, we would gain effective control over, and have the right to receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

In order to comply with the laws and regulations of mainland China, while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. Pursuant to the reorganization, the Contractual Arrangements currently in effect were entered into on December 1, 2017, April 11, 2018 and April 17, 2018, respectively, whereby the WFOEs acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. As a result, we do not directly own any equity interest in our Consolidated Affiliated Entities.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOEs and our Consolidated Affiliated Entities and their registered shareholders; (ii) by entering into the Exclusive Business Cooperation Agreement with the WFOEs, which are mainland China subsidiaries of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

LAWS AND REGULATIONS OF MAINLAND CHINA RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

Foreign investment activities in the mainland China are mainly governed by the Guidance Catalog of Industries for Foreign Investment (the "**Catalog**"), which was promulgated and is amended from time to time jointly by MOFCOM and NDRC. The Catalog divides industries into four categories in terms of foreign investment, namely, "encouraged," "restricted," "prohibited" and "permitted" (the last category of which includes all industries not listed under the "encourage," "restricted" and "prohibited" categories).

As confirmed by JunHe, our Consolidated Affiliated Entities conduct the following businesses which are considered "prohibited" where foreign investment is strictly prohibited: (i) operation of online culture business; (ii) Internet audio-visual program service; (iii) Internet publication business and (iv) news business (collectively the "**Prohibited Business**").

As confirmed by JunHe, our Consolidated Affiliated Entities conduct the following businesses which are considered "restricted" where foreign investors are restricted from holding more than 50%

equity interests in companies providing such services or shall meet certain qualification requirements: (i) e-commerce marketplace business; (ii) cloud storage service and other value-added telecommunications service business; and (iii) resales of mobile communication products (collectively the "**Restricted Business**").

As confirmed by JunHe, our Consolidated Affiliated Entities also conduct a factoring business which is in the process of being transferred out of the Onshore Holdco, subject to the approvals from the relevant regulatory authorities in mainland China (together with the Prohibited Business and Restricted Businesses, the "**Relevant Businesses**").

Further, while we currently do not engage in the following businesses, we may do so in the future: (i) radio and television program production and operation; (ii) film distribution; (iii) sales of securities investment fund; (iv) personal credit investigation and (v) additional value added telecommunication service business. As confirmed by JunHe, these business are or may be subject to foreign investments restrictions.

We operate the Relevant Businesses under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored for the reasons below.

(i) E-commerce marketplace business

Xiaomi Inc. possesses an ICP License which is needed to carry out our e-commerce marketplace business and is engaged in internet information services.

Although our Group's direct sales business is not a restricted business for foreign investment, it is essential for our Group to conduct both our direct sales business and our marketplace business using the same domain name and website, as we aim to provide our customers with a convenient solution to satisfy all of their procurement needs for our products. An integrated direct sales and marketplace platform also allows us to more effectively collect and analyze customer data to improve our marketing, merchandising and inventory management. Our direct sale business is operated by our WFOE, Xiaomi Communications, and its wholly-owned subsidiaries, Zhuhai Xiaomi Communications Co., Ltd. and Guangzhou Xiaomi Communications Co., Ltd., rather than Xiaomi Inc. Xiaomi Communications, Zhuhai Xiaomi Communications Co., Ltd. and Guangzhou Xiaomi Communications Co., Ltd. enter into sale contracts with customers and get paid from customers accordingly and Xiaomi Inc. does not enter into any contracts with customers relating to our direct sales business. Xiaomi Communications, Zhuhai Xiaomi Communications Co., Ltd and Guangzhou Xiaomi Communications Co., Ltd. merely sell our products and provide after-sales services by way of using the website operated by Xiaomi Inc. There is no mandatory legal requirement that Xiaomi Communications, Zhuhai Xiaomi Communications and Guangzhou Xiaomi Communications Co., Ltd. shall own their own websites to sell products to customers. Xiaomi Inc. plays a role as the provider of an integrated direct sales and market place platform for our Group which enables our customers to enjoy a convenient and comprehensive purchase experience.

The provision of internet information services in mainland China is mainly regulated by the Administrative Measures on Internet Information Services (互聯網信息服務管理辦法) (the "**Internet Measures**"), according to which "Internet Information Services" are categorized into (i) "Operational Internet Information Services," which are defined as services involving the provision of information or website-design services through the Internet to Internet-users for a fee; and (ii) "Non-operational Internet Information Services," which are defined as services involving the provision of public and

sharable information through the internet to internet-users free of charge. Pursuant to the Internet Measures, a provider of Operational Internet Information Services is required to obtain an ICP License, while a provider of Non-operational Internet Information Services is only subject to a filing requirement (i.e., the filing of the domain name with the competent bureau of telecommunications). We conducted an interview in March 2018 with the Ministry of Industry and Information Technology (工業和信息化部) (the "**MIIT**") which is the ultimate authority to approve applications for the operation of Internet Information Services. The MIIT confirmed to us that Xiaomi Inc. shall hold an ICP License for our e-commerce marketplace business.

Although ICP Licenses have been granted to sino-foreign equity joint ventures in very limited circumstances in the past, the MIIT also confirmed to us that applications for ICP Licenses by sino-foreign equity joint ventures established by our Company will not be approved at present. JunHe is of the view that the MIIT is the competent authority to give the relevant confirmation.

(ii) Cloud storage service and other value-added telecommunications service business

With respect to our cloud storage service business, we provide cloud data backup services to our personal end-users and our ecosystem companies. The provision of these services are regarded as the business of internet data center under the Telecommunication Business Catalogue 2015《電信業務分類目錄（2015年版）》and are regarded as value-added telecommunication services. The running of this business would require the Value-added Telecommunication Business Operation Permit with Internet Data Center services (including internet resources cooperation services) ("**IDC License**"). The MIIT has confirmed to us that we are currently unable to obtain an IDC License by using a sino-foreign equity joint venture or wholly-owned foreign investment entity. Therefore we are of the view that the Contractual Arrangements are narrowly tailored and we are required to carry out our cloud storage service business through the Contractual Arrangements.

With respect to our other value-added telecommunications services businesses such as our mobile application store and third-party payment services through our online platform, as advised by JunHe, since they involve the provision of internet information services they require an ICP License under relevant mainland China laws and regulations. The MIIT has confirmed that we are currently unable to obtain an ICP License through any sino-foreign equity joint venture or wholly-owned foreign investment entity as mentioned above, we are of the view that the Contractual Arrangements are narrowly tailored because it is currently not feasible for us to apply for an ICP License through a sino-foreign equity joint venture or wholly-owned foreign investment entity structure and we are therefore required to carry out our value-added telecommunications services through the Contractual Arrangements.

(iii) Resales of mobile communication products

Based on the Notice regarding the Launching of Pilot Scheme for Resale of Mobile Communications issued by the MIIT《工業和信息化部關於開展移動通信轉售業務試點工作的通告》(the "**Notice**") and its appendix Pilot Scheme for Resale of Mobile Communications《移動通信轉售業務試點方案》as issued by MIIT on May 17, 2013, resale of mobile communications is regarded as basic telecommunications services. According to the FITE Regulations (as define below), the proportion of capital contributed by the foreign investor in a foreign-invested telecommunications enterprise engaged in basic telecommunications services (other than radio paging services) shall not ultimately exceed 49%, while the major foreign investor in a foreign-invested telecommunications

enterprise engaged in basic telecommunications business shall possess a license for engaging in basic telecommunications business in the country or region where the foreign investor is registered and must possess prior experience in operating basic telecommunications businesses and a proven track record of business operations overseas. Circular on Formal Commercialization for Resale of Mobile Communications《關於移動通信轉售業務正式商用的通告》 was issued by the MIIT which takes effect on May 1, 2018, pursuant to which foreign-invested enterprises could apply for operating resale of mobile communications in compliance with the applicable mainland China laws and regulations. However, the MIIT confirmed to us that (i) the current policy in mainland China is not to allow any sino-foreign equity joint venture to operate the resales of mobile communication products and (ii) even if the Circular is implemented, it is still difficult for a sino-foreign equity joint venture, subject to a maximum equity ownership of 49%, to obtain the approval to conduct this business. We are of the view that the Contractual Arrangements are narrowly tailored because it is currently not feasible for us to carry out our resale of mobile communications by a sino-foreign equity joint venture or wholly-owned foreign investment entity but through the Contractual Arrangements.

(iv) Factoring

Our factoring business is not subject to any foreign investment restrictions and we are in the process of transferring such business out of our Onshore Holdco. As of the Latest Practicable Date, Chongqing Xiaomi Commercial Factoring Co., Ltd. (重慶小米商業保理有限公司) ("**Chongqing Factoring**") was entirely held by Xiaomi Inc. The equity interest in Chongqing Factoring is in the process of being transferred to Beijing Xiaomi Payment Technology Co., Ltd (北京小米支付技術有限公司), subject to approvals from the relevant authorities in mainland China.

Chongqing Liang Jiang New Area Department of Modern Service Industries (the "**Department**") was the former regulatory agency of commercial factoring companies in Chongqing. The Department was in charge of regulating and monitoring the business operation of commercial factoring companies, including granting approvals for change of ownership. On May 8, 2018, the Minister of Commerce promulgated the Notice on Matters Related to Rearranging the Duties of Regulating Financial Lease Companies, Commercial Factoring Companies, and Pawnshops ("關於融資租賃公司、商業保理公司和典當行管理職責調整有關事宜的通知"), which reallocates the duty of regulating commercial factoring companies to the China Banking and Insurance Regulatory Commission, leaving the local governments to finalize the transition. As confirmed by the Department on May 24, 2018, the regulatory power transition is still in process and the Department has stopped granting approvals for any change of ownership of commercial factoring companies in Chongqing.

(v) Minority investments and our business "ecosystem"

Furthermore, in our ordinary course of business we make minority investments in a large number of companies. These companies are generally members of the broader "ecosystem" related to our business and provide products, services and/or resources that we believe can help us efficiently expand product and service offerings to our users, have developed proprietary technologies complementary to ours, or have the ability to help us enter into new markets. These investments are primarily made through subsidiaries of our Consolidated Affiliated Entity Xiaomi Inc. (namely, Tianjin Jinxing Investment Co., Ltd. (天津金星投資有限公司) and Tianjin Gold Mi Investment Partners (Limited Partnership) (天津金米投資合夥企業(有限合夥)). The majority of the investments involve amounts less than RMB20 million. The investments are passive, non-controlling interests that are classified as financial assets carried at fair value and are neither consolidated in our financial statements nor form part of our Group. None of the investments are material to us. Given their

immateriality and the fact that we do not consolidate or control them, and for the reasons outlined above, our Directors consider that our Contractual Arrangements are narrowly tailored.

These investments are primarily investments classified as financial assets carried at fair value through profit or loss and are not consolidated into our Group's financial statements. Changes in the fair value are included in profit or loss in the period in which they arise and presented within "Fair value changes on investments" in the income statement. Upon disposal, the difference between the net sale proceeds and the carrying amount is also included in the income statement as "Other (losses)/ gains, net."

By way of illustration that none of the investments held under the Contractual Arrangements are material to us, the long-term investments measured at fair value through profit or loss held under the Contractual Arrangements accounts for approximately 7.8%, 8.6%, 8.1% and 7.9% of our total assets as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively, and the fair value changes on investments measured at fair value through profit or loss held under the Contractual Arrangements accounts for approximately 1.5%, 1.2%, 2.2% and (0.1)% of our total revenue for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2018, respectively. The long-term investments measured at fair value through profit or loss attributed by the top 5 investments held under the Contractual Arrangements in aggregate accounts for approximately 6.1%, 6.2%, 6.2% and 5.9% of our total assets as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively, and the fair value changes on investments measured at fair value through profit or loss attributed by the top 5 investments held under the Contractual Arrangements in aggregate accounts for approximately 1.2%, 0.9%, 2.2% and (0.2)% of our total revenue for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2018, respectively.

To the extent that we acquire control over an investee company in the future, and depending on the nature of the business conducted by the investee company, we will consider restructuring the ownership of the investee company to a direct or indirect subsidiary of our Company.

Therefore, we are of the view that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in mainland China. We will unwind and terminate the Contractual Arrangements wholly or partially once our businesses are no longer prohibited or restricted from foreign investment.

QUALIFICATION REQUIREMENTS UNDER THE FITE REGULATIONS

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "**FITE Regulations**"), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including internet content provision services. In addition, a foreign investor who invests in a value-added telecommunications business in mainland China must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirements**"). Currently none of the applicable mainland China laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. According to our consultation with the MIIT in March 2018, it confirms that there is no clear guidance about how a foreign investor could meet the Qualification Requirements, and it applies a relatively strict standard for identifying whether foreign investors meet the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the Onshore Holdcos or any of our Consolidated Affiliated Entities when the relevant laws of mainland China allow foreign investors to invest and to hold any equity interests in enterprises which engage in the value-added telecommunications business. For the purposes of meeting the Qualification Requirements, we are in the process of establishing and accumulating overseas operation experience, for example:

(i) we have incorporated a number of overseas entities for the purpose of expanding our businesses overseas;

(ii) Xiaomi Inc. has entered into an agreement with a third party in relation to the operation and management of the domain name www.mi.com/in/ for the purpose of promoting and selling our products and services in India; and

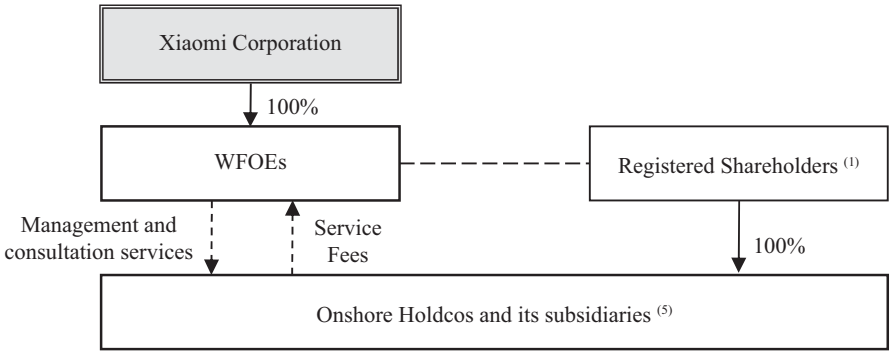
(iii) we have registered a number of domain names overseas for the purpose of promoting our products and services.

In our consultation with the MIIT, the MIIT also confirmed that the above steps taken by us may be deemed to satisfy the Qualification Requirements if we follow the above steps continuously for a period of time and have accumulated the experience in providing value-added telecommunications services in overseas markets, which is in accordance with the FITE Regulations.

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

CONTRACTUAL ARRANGEMENTS

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) Registered Shareholders refer to the registered shareholders of the Onshore Holdcos, namely (i) Beijing Wali Culture; (ii) Rigo Design; (iii) Xiaomi Inc.; (iv) Beijing Duokan; (v) Beijing Wali Internet; (vi) Xiaomi Pictures; (vii) Beijing Electronic Software; and (viii) Youpin Information Technology.

(i) Beijing Wali Culture is owned by Lei Jun (雷軍) as to 90% and Shang Jin (尚進) as to 10%.

(ii) Rigo Design is owned by Zhu Yin (朱印) as to 61% and Li Jiong (李炯) as to 39%.

(iii) Xiaomi Inc. is owned by Lei Jun as to 77.80%, Li Wanqiang (黎萬強) as to 10.12%, Hong Feng (洪鋒) as to 10.07% and Liu De (劉德) as to 2.01%.

(iv) Beijing Duokan is owned by Wang Chuan (王川) as to 61.75% and Lei Jun as to 38.25%.
(v) Beijing Wali Internet is owned by Lei Jun as to 10%, Liu Yang (劉洪) as to 65%, Liang Qiushi (梁秋實) as to 14%, Liu Jingyan (劉景岩) as to 6%, Yuan Bin (袁彬) as to 3% and Nan Nan (南楠) as to 2%.
(vi) Xiaomi Pictures is owned by Li Wanqiang as to 87.92%, Hong Feng as to 10.07% and Liu De as to 2.01%.
(vii) Beijing Electronic Software is owned by Lei Jun as to 90% and Hong Feng as to 10%.
(viii) Youpin Information Technology is owned by Lei Jun as to 70%, Hong Feng (洪鋒) as to 10%, Liu De (劉德) as to 10% and Li Wanqiang (黎萬強) as to 10%.

(2) "—>" denotes direct legal and beneficial ownership in the equity interest.
(3) "--->" denotes contractual relationship.
(4) "----" denotes the control by WFOEs over the Registered Shareholders and the Onshore Holdcos through (i) powers of attorney to exercise all shareholders' rights in the Onshore Holdcos, (ii) exclusive options to acquire all or part of the equity interests in the Onshore Holdcos and (iii) equity pledges over the equity interests in the Onshore Holdcos.
(5) These include certain companies which do not currently carry out any business operations but are intended to carry out businesses which are subject to foreign investment restrictions in accordance with the Guidance Catalog of Industries for Foreign Investment. For further details of the subsidiaries of the Onshore Holdcos, see the section headed "History, Reorganization and Corporate Structure."

SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

A description of each of the specific agreements that comprise the Contractual Arrangements entered into by each of the WFOEs and the Onshore Holdcos is set out below.

Exclusive Business Cooperation Agreements

Under the exclusive business cooperation agreements dated December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, between the Onshore Holdcos and the WFOEs (the "**Exclusive Business Cooperation Agreements**"), pursuant to which, in exchange for a monthly service fee, the Onshore Holdcos agreed to engage the WFOEs as its exclusive provider of technical support, consultation and other services, including the following services:

(i) the use of any relevant software legally owned by the WFOEs;

(ii) development, maintenance and updating of software in respect of the Onshore Holdcos' business;

(iii) design, installation, daily management, maintenance and updating of network systems, hardware and database design;

(iv) providing technical support and staff training services to relevant employers of the Onshore Holdcos;

(v) providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign owned enterprises are prohibited from conducting under the laws of mainland China);

(vi) providing business management consultation;

(vii) providing marketing and promotional services;

(viii) providing customer order management and customer services;

(ix) transfer, leasing and disposal of equipment or properties; and

(x) other relevant services requested by the Onshore Holdcos from time to time to the extent permitted under the laws of mainland China.

Under the Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of the Onshore Holdcos, after the deduction of any accumulated deficit

of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, the WFOEs may adjust the scope and amount of services fees according to mainland China tax law and tax practices, and the Onshore Holdcos will accept such adjustments. The WFOEs shall calculate the service fee on a monthly basis and issue a corresponding invoice to the Onshore Holdcos. Notwithstanding the payment arrangements in the Exclusive Business Cooperation Agreements, the WFOEs may adjust the payment time and payment method, and the Onshore Holdcos will accept any such adjustment.

In addition, absent the prior written consent of the WFOEs, during the term of the Exclusive Business Cooperation Agreements, with respect to the services subject to the Exclusive Business Cooperation Agreements and other matters, the Onshore Holdcos shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the Exclusive Business Cooperation Agreements with any third party. The WFOEs may appoint other parties, who may enter into certain agreements with the Onshore Holdcos, to provide the Onshore Holdcos with the services under the Exclusive Business Cooperation Agreements.

The Exclusive Business Cooperation Agreements also provide that the WFOEs have the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the Onshore Holdcos during the performance of the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreements shall remain effective unless terminated (a) in accordance with the provisions of the Exclusive Business Cooperation Agreements; (b) in writing by the WFOEs; or (c) renewal of the expired business period of either the WFOE or the Onshore Holdcos is denied by relevant government authorities, at which time the Exclusive Business Cooperation Agreements will terminate upon termination of that business period.

Exclusive Option Agreements

Under the exclusive option agreements dated December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, among the Onshore Holdcos, the WFOEs and the Registered Shareholders (the "**Exclusive Option Agreements**"), the WFOEs have the rights to require the Registered Shareholders to transfer any or all their equity interests in the Onshore Holdcos to the WFOEs and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the Registered Shareholders (or part of the loan amounts in proportion to the equity interests being transferred) or, if applicable, for a nominal price, unless the relevant government authorities or the mainland China laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request.

The Onshore Holdcos and the Registered Shareholders, among other things, have covenanted that:

(i) without the prior written consent of the WFOEs, they shall not in any manner supplement, change or amend the constitutional documents of the Onshore Holdcos, increase or decrease their registered capital, or change the structure of their registered capital in other manner;

(ii) they shall maintain the Onshore Holdcos' 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 WFOEs, they shall not at any time following the signing of the Exclusive Option Agreements sell, transfer, pledge or dispose of in any manner any material assets of the Onshore Holdcos or legal or beneficial interest in the material business or revenues of the Onshore Holdcos of more than RMB1,000,000, or allow the encumbrance thereon of any security interest;

(iv) without the prior written consent of the WFOEs, the Onshore Holdcos shall not incur, inherit, guarantee or assume any debt, except for debts incurred in the ordinary course of business other than payables incurred by a loan;

(v) the Onshore Holdcos shall always operate all of their businesses during the ordinary course of business to maintain their asset value and refrain from any action/omission that may adversely affect the Onshore Holdcos' operating status and asset value;

(vi) without the prior written consent of the WFOEs, they shall not cause the Onshore Holdcos to execute any material contract with a value above RMB1,000,000, except the contracts executed in the ordinary course of business;

(vii) without the prior written consent of the WFOEs, they shall not cause the Onshore Holdcos to provide any person with any loan or credit;

(viii) they shall provide the WFOEs with information on the Onshore Holdcos' business operations and financial condition at the request of the WFOEs;

(ix) if requested by the WFOEs, they shall procure and maintain insurance in respect of the Onshore Holdcos' assets and business from an insurance carrier acceptable to the WFOE, at an amount and type of coverage typical for companies that operate similar businesses;

(x) without the prior written consent of the WFOEs, they shall not cause or permit the Onshore Holdcos to merge, consolidate with, acquire or invest in any person;

(xi) they shall immediately notify the WFOEs of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the Onshore Holdcos' assets, business or revenue;

(xii) to maintain the ownership by the Onshore Holdcos 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 WFOEs, the Onshore Holdcos shall not in any manner distribute dividends to their shareholders, provided that upon the written request of the WFOEs, the Onshore Holdcos shall immediately distribute all distributable profits to their shareholders;

(xiv) at the request of the WFOEs, they shall appoint any persons designated by the WFOEs as the directors and/or senior management of the Onshore Holdcos; and

(xv) unless otherwise mandatorily required by mainland China laws, the Onshore Holdcos shall not be dissolved or liquidated without prior written consent by the WFOEs.

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

(i) without the written consent of the WFOEs, they shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in the Onshore Holdcos, or allow the encumbrance thereon of any security interest, except for the Equity Pledge Agreements and the interests prescribed in the Powers of Attorney, and procure the shareholders' meeting and the board of directors of the Onshore Holdcos not to approve such matters;

(ii) for each exercise of the equity purchase option, to cause the shareholders' meeting of the Onshore Holdcos to vote on the approval of the transfer of equity interests and any other action requested by the WFOEs;

(iii) they shall relinquish the pre-emptive right (if any) he/she is entitled to in relation to the transfer of equity interest by any other shareholders to the Onshore Holdcos and give consent to the execution by each other shareholder of the Onshore Holdcos with the WFOEs and the Onshore Holdcos exclusive option agreements, equity interest pledge agreements and powers of attorney similar to the Exclusive Option Agreements, the Equity Pledge Agreements and the Powers of Attorney, and accept not to take any action in conflict with such documents executed by the other shareholders (if any); and

(iv) each of the Registered Shareholders will transfer to the WFOEs or its appointee(s) by way of gift any profit or dividend in accordance with the mainland China law.

The Registered Shareholders have also undertaken that, subject to the relevant laws and regulations, they will return to the WFOEs any consideration they receive in the event that the WFOEs exercise the options under the Exclusive Option Agreements to acquire the equity interests in the Onshore Holdcos.

The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in the Onshore Holdcos have been transferred to the WFOEs or their appointee(s).

Equity Pledge Agreements

Under the equity pledge agreements dated December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, entered into between the WFOEs, the Registered Shareholders and the Onshore Holdcos (the "**Equity Pledge Agreements**"), the Registered Shareholders agreed to pledge all their respective equity interests in the Onshore Holdcos that they own, including any interest or dividend paid for the shares, to the WFOEs as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The pledge in respect of the Onshore Holdcos takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders and the Onshore Holdcos under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and the Onshore Holdcos under the relevant Contractual Arrangements have been fully paid.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), the WFOEs shall have the right to require the Onshore Holdcos' shareholders (i.e. the Registered Shareholders) to immediately pay any amount payable by the Onshore Holdcos

under the Exclusive Business Cooperation Agreement, repay any loans and pay any other due payments, and the WFOEs shall have the right to exercise all such rights as a secured party under any applicable mainland China law and the Equity Pledge Agreements, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders.

We expect the registration of the Equity Pledge Agreements as required by the relevant laws and regulations will be completed in accordance with the terms of the Equity Pledge Agreements and mainland China laws and regulations before the Listing Date.

Powers of Attorney

The Registered Shareholders have executed powers of attorney dated December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, (the "**Powers of Attorney**"). Under the Powers of Attorney, the Registered Shareholders irrevocably appointed the WFOEs and their designated persons (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the Onshore Holdcos, including without limitation:

(i) to convene and attend shareholders' meetings of the Onshore Holdcos;

(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 the Onshore Holdcos, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in the Onshore Holdcos;

(iv) to execute any and all written resolutions and meeting minutes and to approve the amendments to the articles of associations in the name and on behalf of such shareholder; and

(v) to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of the Onshore Holdcos.

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

Loan Agreements

In relation to Beijing Wali Culture, Xiaomi Inc., Beijing Electronic Software and Youpin Information Technology only, the relevant WFOEs and their Registered Shareholders entered into loan agreements dated December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, (the "**Loan Agreements**"), pursuant to which the WFOEs agreed to provide loans to the Registered Shareholders, to be used exclusively as investment in the relevant Onshore Holdcos. The loans must not be used for any other purposes without the relevant lender's prior written consent.

The term of each loan commences from the date of the agreement and ends on the date the lender exercises its exclusive call option under the relevant Exclusive Option Agreement, or when

certain defined termination events occur, such as if the lender sends a written notice demanding repayment to the borrower, or upon the default of the borrower, whichever is earlier.

After the lender exercises his exclusive call option, the borrower may repay the loan by transferring all of its equity interest in the relevant Onshore Holdco to the lender, or a person or entity nominated by the lender, and use the proceeds of such transfer as repayment of the loan. If the proceeds of such transfer is equal to or less than the principal of the loan under the relevant Loan Agreement, the loan is considered interest-free. If the proceeds of such transfer is higher than the principal of the loan under the relevant Loan Agreement, any surplus is considered interest for the loan under the relevant Loan Agreement.

Confirmations from the Registered Shareholders

Each of the Registered Shareholders has confirmed to the effect that (i) his/her spouse does not have the right to claim any interests in the respective Onshore Holdcos (together with any other interests therein) or exert influence on the day-to-day management of the respective Onshore Holdcos; and (ii) in the event of his/her death, incapacity, divorce or any other event which causes his/her inability to exercise his/her rights as a shareholder of the respective Onshore Holdcos, he/her will take necessary actions to safeguard his/her interests in the respective Onshore Holdcos (together with any other interests therein) and his/her successors (including his/her spouse) will not claim any interests in the respective Onshore Holdcos (together with any other interests therein) to the effect that the Registered Shareholders' interests in the Onshore Holdcos shall not be affected.

Spouse undertakings

The spouse of each of the Registered Shareholders, where applicable, has signed an undertaking (the "**Spouse Undertakings**") to the effect that (i) the respective Registered Shareholder's interests in the respective Onshore Holdcos (together with any other interests therein) do not fall within the scope of communal properties, and (ii) he/she has no right to or control over such interests of the respective Registered Shareholder and will not have any claim on such interests.

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 Beijing Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of our Onshore Holdcos 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 our Onshore Holdcos; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the mainland China and the places where the principal assets of the WFOEs or our Onshore Holdcos are located for interim remedies or injunctive relief.

However, JunHe has advised that the above provisions may not be enforceable under the mainland China 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 our Consolidated Affiliated Entities pursuant to the

current mainland China 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 mainland China.

As a result of the above, in the event that the Onshore Holdcos or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See the section headed "Risk Factors —Risks Relating to our Contractual Arrangements" in this document for further details.

Conflict of Interest

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

Loss Sharing

Under the relevant mainland China laws and regulations, none of our Company and the WFOEs is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOEs intend to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in mainland China through our Consolidated Affiliated Entities, which hold the requisite mainland China operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

However, as provided in the Exclusive Option Agreements, without the prior written consent of the WFOEs, the Onshore Holdcos shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its material assets of more than RMB1,000,000; (ii) execute any material contract with a value above RMB1,000,000, except those entered into in the ordinary course of business; (iii) provide any loan, credit or guarantees in any form to any third party, or allow any third party create any other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; (v) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOEs and our Company in the event of any loss suffered from the Onshore Holdcos can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreements, in the event of a mandatory liquidation required by the mainland China laws, the shareholders of our Consolidated Affiliated Entities shall give the proceeds they received from liquidation as a gift to the WFOEs or its designee(s) to the extent permitted by the mainland China laws.

Insurance

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

Confirmation on Interference and Encumbrance

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

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, JunHe is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant mainland China laws and regulations and that:

(i) parties to each of 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 be deemed as "concealment of illegal intentions with a lawful form" and void under Contract Law of the People's Republic of China (《中華人民共和國合同法》) ("**China Contract Law**");

(iii) none of the Contractual Arrangements violates any provisions of the articles of association of our Onshore Holdcos or our WFOEs;

(iv) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorizations from the mainland China governmental authorities, except that:

  (a) the exercise of the option by our WFOEs of their rights under the Exclusive Option Agreements to acquire all or part of the equity interests in our Onshore Holdcos are subject to the approvals of, consent of, filing with and/or registrations with the mainland China governmental authorities;

  (b) any share pledge contemplated under the share pledge Agreements are subject to the registration with competent administration bureau for industry and commerce; and

  (c) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by mainland China's courts before compulsory enforcement;

(v) each of the Contractual Arrangements is valid, legal and binding under the laws of mainland China, except for the following provisions regarding dispute resolution and the liquidating committee:

  (a) the Contractual Arrangements provide that any dispute shall be submitted to the Beijing Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing. They also provide that the arbitrator may award interim remedies over the shares or assets of our Onshore Holdcos or injunctive relief (e.g. for the conduct of business or to compel the transfer

of assets) or order the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and mainland China (being the place of incorporation of our Onshore Holdcos) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of our Onshore Holdcos. However, JunHe has advised that the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in mainland China; and

(b) the Contractual Arrangements provide that the shareholders of our Onshore Holdcos undertake to appoint a committee designated by our WFOEs, subject to applicable laws and regulations, as the liquidation committee upon the winding up of our Onshore Holdcos to manage their assets. However, this provision does not apply in the event of a mandatory liquidation required by mainland China laws or bankruptcy liquidation.

The Administrative Measures for Internet Publication Service (《網絡出版服務管理規定》) (the "**Internet Publication Measures**"), were jointly promulgated by the SAPPRFT and the MIIT on February 4, 2016 and became effective on March 10, 2016. Pursuant to the Internet Publication Measures, the SAPPRFT, as the competent department of the internet publication services industry, is responsible for the prior approval, supervision and administration of the online publishing services nationwide.

The Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the "**Internet Culture Provisions**"), which was promulgated by the Ministry of Culture on February 17, 2011, provide that internet cultural entities are classified into operational internet cultural entities and non-operational internet cultural entities. Operational internet cultural entities shall file application for establishment to the competent culture administration authorities for approval and must obtain the online culture operating permit.

In accordance with Article 3 of Online Game Measures and Article 2 of Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the Ministry of Culture, the State Administration of Radio Film and Television (the "**SARFT**") and the General Administration of Press and Publication of the People's Republic of China ("**GAPP**") (《中央編辦對文化部、廣電總局、新聞出版總署〈"三定"規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋》) (the "**Interpretation**"), provides that the GAPP will have responsibility for the examination and approval of online games to be uploaded on the internet and that, after such upload, online games will be administered by the Ministry of Culture and Tourism.

On July 6, 2005, five mainland China regulatory agencies, namely, the Ministry of Culture, SARFT, the GAPP, the CSRC and the MOFCOM, jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》) (the "**Opinion on Canvassing Foreign Investment**"). According to the Opinion on Canvassing Foreign Investment, foreign investors are prohibited from engaging in such business as the internet publication. According to the Opinion on Canvassing Foreign Investment, foreign investors are not allowed to conduct the business of transmitting audio-visual programs via information network. On September 28, 2009, the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications, jointly issued the Notice Regarding

the Consistent Implementation of the "Regulation on Three Provisions" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹和落實國務院<"三定"規定>和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》) (the "**GAPP Notice**"). Article 4 of the GAPP Notice provides that foreign investors are not permitted to invest or engage in online game operations in mainland China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support.

Notwithstanding the foregoing, in March and April 2018, representatives of our Company and of the Joint Sponsors consulted the Beijing Municipal Bureau of Culture, Beijing Municipal Bureau of Press, Publication, Radio, Film and Television and MIIT, respectively. JunHe has advised us that (i) all of them are competent government authorities for the Company's principal business activities; (ii) the relevant authorities have confirmed that, save for online reading and publication of internet games, the adoption of the Contractual Arrangements does not constitute a breach of the mainland China laws and regulations; (iii) in relation to publication of internet games, the Beijing Municipal Bureau of Culture, being the competent authority regulating games already published, has confirmed that the adoption of the Contractual Arrangements does not constitute a breach of the mainland China laws and regulations and does not impact on the validity of the existing licenses obtained by the Company; and (iv) in relation to our online reading business, mainland China laws and regulations do not prohibit the adoption of the Contractual Arrangement in such business. Although Beijing Municipal Bureau of Press, Publication, Radio, Film and Television did not opine on the legality of our adoption of the Contractual Arrangements in relation to our online reading business during our consultation, it did not expressed that the adoption of the Contractual Arrangements is a violation of the mainland China laws and regulations. In addition, as confirmed by MIIT, the adoption of the Contractual Arrangement does not constitute a breach of the mainland China laws and regulations.

Based on the above analysis and advice from JunHe, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable mainland China laws and regulations. JunHe is of the view that Beijing Municipal Bureau of Culture, Beijing Municipal Bureau of Press, Publication, Radio, Film and Television and MIIT are competent and authorized to interpret the relevant laws, regulations and rules of mainland China for the industry in which our Company operates its business and make the abovementioned oral confirmations. See the section headed "Risk Factors—Risks Relating to Our Contractual Arrangements—If the mainland Chinese government finds that the agreements that establish the structure for operating our business do not comply with mainland Chinese laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations."

We are aware of a Supreme People's Court ruling (the "**Supreme People's Court Ruling**") made in October 2012 and two arbitral decisions from the Shanghai International Arbitration Center made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in mainland China contravene the prohibition against "concealing an illegitimate purpose under the guise of legitimate acts" set out in Article 52 of the China Contract Law and the General Principles of the Civil Law of the People's Republic of China. It has been further reported that these court rulings and arbitral

decisions may increase (i) the possibility of mainland China's courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in mainland China and (ii) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the China Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. JunHe is of the view that the relevant terms of our Contractual Arrangements do not fall within the above five circumstances. In particular, JunHe is of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (iv) above under Article 52 of the China Contract Law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual Arrangements are (a) to enable our Onshore Holdcos to transfer its economic benefits to the WFOEs as service fees for engaging the WFOEs as their exclusive service provider and (b) to ensure that the Registered Shareholders do not take any actions that are contrary to the interests of the WFOEs. In accordance with Article 4 of the China Contract Law, which is a section of the Part One (General Principles) of the China Contract Law setting forth fundamental principles under the China Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow our Company to list on the Stock Exchange while obtaining the economic benefits of our Consolidated Affiliated Entities, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, JunHe is of the view that the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the China Contract Law.

DEVELOPMENT IN LEGISLATION ON FOREIGN INVESTMENT IN MAINLAND CHINA

Draft Foreign Investment Law

Background

The MOFCOM published Draft FIL in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in mainland China. The MOFCOM has solicited comments on this draft in early 2015 and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in mainland China.

Negative list

The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors on the "catalog of special administrative measures" (i.e. the "negative list"). The "catalog of special administrative measures" set out in the Draft Foreign Investment Law classifies the relevant prohibited and restricted industries into the Catalog of Prohibitions and the Catalog of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalog of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, provided that they fulfil certain conditions and apply for permission before making such investment.

However, the Draft Foreign Investment Law does not specify the businesses to be included in the Catalog of Prohibitions and the Catalog of Restrictions.

Principle of "actual control"

Among other things, the Draft Foreign Investment Law purports to introduce the principle of "actual control" in determining whether a company is considered a foreign invested enterprise or a foreign invested entity or "FIE." It specifically provides that entities established in mainland China but "controlled" by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but cleared by the authority in charge of foreign investment as "controlled" by mainland China entities and/or citizens, would nonetheless be treated as a mainland China domestic entity for investment in the Catalog of Restrictions, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, "control" is defined in the Draft Foreign Investment Law to cover any of the following summarized categories:

(i) directly or indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;

(ii) directly or indirectly holding less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but:

  (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision-making bodies,

  (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision-making bodies, or

  (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or

(iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

In respect of "actual control," the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the FIE. "Actual control" refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights, and decision-making arrangements. Article 19 of the Draft Foreign Investment Law defines "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or FIEs.

If an entity is determined to be a FIE and its investment amount exceeds certain threshold or its business operation falls within the "catalog of special administrative measures" to be issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

Impact of the Draft Foreign Investment Law on VIE

The "variable interest entity" structure, or VIE structure, has been adopted by many mainland China-based companies. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. As far as the new VIE structures operating in industry sectors that are in the Catalog of Restrictions are concerned, if the ultimate controlling person(s) of a domestic enterprise under the VIE structure is/are of mainland China nationality (either mainland China state-owned enterprises or agencies, or mainland China citizens), such domestic enterprise may be treated as a mainland Chinese investor and therefore the VIE structures may be considered as legitimate. Conversely, if ultimate controlling person(s) is/are of foreign nationalities, such domestic enterprise may be treated as a foreign investor or FIE, and therefore the operation of such domestic enterprise through VIE structures without obtaining necessary permission may be considered as illegal.

Neither the Draft Foreign Investment Law nor its accompanying explanatory notes (the "**Explanatory Notes**") provides a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective. However, the Explanatory Notes contemplate three possible approaches in dealing with FIEs with existing VIE structures and conducting business in an industry falling within the "catalog of special administrative measures":

(i) requiring them to make a filing (申報) to the competent authority that the actual control is vested with mainland Chinese investors, after which the VIE structures may be retained;

(ii) requiring them to apply to the competent authority for certification that their actual control is vested with mainland Chinese investors and, upon verification (認定) by the competent authority, the VIE structures may be retained; and

(iii) requiring them to apply to the competent authority for permission (准入許可) to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

To further clarify, under the first possible approach, "making a filing" is simply an information disclosure obligation, which means the enterprise does not have to receive any confirmation or permission from the competent authorities, whilst for the second and third approaches, the enterprise has to receive either the confirmation or the access permission from the competent authorities. For the latter two approaches, the second approach focuses on the nationality of the controller, whereas the third approach may take factors in addition to the nationality of the controller (which are not clearly defined in the Draft Foreign Investment Law or the Explanatory Notes) into consideration.

The three possible approaches above are set out in the Explanatory Notes to solicit public opinion on the treatment of existing contractual arrangements, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation.

Where foreign investors and FIEs circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalog of Prohibitions, or make investments in sectors specified in the Catalog of Restrictions without permission or violate the information reporting obligations specified therein, penalty shall be imposed in accordance with Article 144 (Investments in Sectors Specified in the

Catalog of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

If foreign investors make investments in the sectors specified in the Catalog of Prohibitions or the Catalog of Restrictions without obtaining necessary permission, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the central government at the place where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or in a sum not more than 10% of illegal investments.

If foreign investors or FIEs are in violation of the provisions of the Draft Foreign Investment Law, including by way of failing to perform on schedule or evading the performance of the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the central government at the place where the investments are made shall order them to make rectifications within a prescribed time limit. If they fail to make rectifications within the prescribed time limit or the circumstances are serious, such competent authorities shall impose a fine of not less than RMB50,000 but not more than RMB500,000 or in a sum not more than 5% of the investments.

If foreign investors or FIEs are in violation of the provisions of the Draft Foreign Investment Law, including by way of evading the performance of the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or FIEs and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

Status of promulgation of the Draft Foreign Investment Law

As of the Latest Practicable Date, there was no certainty whether, or timeline when, the Draft Foreign Investment Law will be promulgated and come into effect, and if so, whether it is to be promulgated in the current draft form after it undergoes through further enactment process. Furthermore, the MOFCOM has not issued any definite rules or regulations to govern existing contractual arrangements.

Potential impact of the Draft Foreign Investment Law on our Company

Whether our Company is controlled by mainland China entities and/or citizens

If the Draft FIL is promulgated in the current draft form, on the basis that (i) Lei Jun, our Controlling Shareholder, who is of Chinese nationality, will control an aggregate of 54.74% of voting rights of our Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued pursuant to the exercise of share options granted under the Pre-IPO ESOP) and therefore complies with the first limb of the "control" requirement under the Draft FIL by virtue of Lei Jun (a Chinese national) indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of our Company; (ii) our Company through the WFOEs

exercises effective control over our Consolidated Affiliated Entities pursuant to the Contractual Arrangements and can exert decisive influence on the Onshore Holdcos and therefore complies with the third limb of the "control" requirement under the Draft FIL by virtue of Lei Jun having the power to exert decisive influence pursuant to the Contractual Arrangements, JunHe is of the view that we can apply for the recognition of the Contractual Arrangements as a domestic investment and it is likely that the Contractual Arrangements will be considered as legal.

Whether the Relevant Businesses are on the "catalog of special administrative measures" to be issued by the State Council

If the operation of our Relevant Businesses is not on the "catalog of special administrative measures" and we can legally operate such business under mainland China Laws, our WFOEs will exercise the call option under the Exclusive Option Agreements to acquire the equity interest of our Consolidated Affiliated Entities and unwind the Contractual Arrangements subject to re-approval by the relevant authorities.

If the operation of our Relevant Businesses is on the "catalog of special administrative measures," depending on the definition of "control" that may be adopted in the foreign investment law as finally enacted and the treatment of VIE structures existing before the new foreign investment law becoming effective, the Contractual Arrangements may be regarded as prohibited or restricted foreign investment and therefore may be considered as invalid and illegal. As a result, we will not be able to operate our Relevant Businesses through the Contractual Arrangements and would lose our rights to receive the economic benefits of our Consolidated Affiliated Entities. As such, the financial results of those entities would no longer be consolidated into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such de-recognition.

Sustainability of our business

If the new foreign investment law as finally promulgated and the "catalog of special administrative measures" as finally issued mandate further actions for us to retain the Contractual Arrangements, we will take all reasonable measures and actions to comply with the foreign investment law then in force and to minimize the adverse effect of such laws on our Company. However, there is no assurance that we can fully comply with such law. In the worst case scenario, we will not be able to operate the Relevant Businesses through the Contractual Arrangements and will lose our rights to receive the economic benefits from our Consolidated Affiliated Entities. In such case, the Stock Exchange may also consider our Company to be no longer suitable for listing on the Stock Exchange and delist our Shares. See the section headed "Risk Factors—Risks Relating to Our Contractual Arrangements" in this document for details.

Nevertheless, considering that a number of existing entities are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors are of the view that it is unlikely, if the Draft Foreign Investment Law is promulgated, that the relevant authorities will take retrospective effect to require the relevant enterprises to remove the contractual arrangements. JunHe believes that the mainland China government is likely to take a relatively cautious attitude towards the supervision of foreign investments and the enactment of laws and regulations impacting them, and make decisions according to different situations in practice.

Our Directors undertake that our Company will, to the extent that our Company would be required to announce such information pursuant to Part XIVA of the SFO after the Listing, timely announce (i) any updates or material changes to the Draft Foreign Investment Law and (ii) in the event that the new foreign investment law has been promulgated, a clear description and analysis of the law, specific measures adopted by our Company to comply with the law (supported by advice from JunHe), as well as its impact on our business operation and financial position.

DECISION ON AMENDING FOUR INBOUND INVESTMENT LAWS

On September 3, 2016, the Standing Committee of the National People's Congress of the People's Republic of China (全國人大常務委員會) published the Decision of the Standing Committee of the National People's Congress on Revising Four Laws Including the "Law of the People's Republic of China on Wholly Foreign-Owned Enterprises" (《全國人大常務委員會關於修改<中華人民共和國外資企業法>等四部法律的決定》) which came into effect on October 1, 2016 and seeks to revise the current foreign investment legal regime.

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

According to IFRS 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.

Under the Exclusive Business Cooperation Agreements, it was agreed that, in consideration of the services provided by WFOEs, each of our Onshore Holdcos will pay services fees to the WFOEs. The services fees, subject to the WFOEs' adjustment, are equal to the entirety of the total consolidated profit of our Onshore Holdcos (net of accumulated deficit of the Consolidated Affiliated Entities in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). WFOEs may adjust the services scopes and fees at its discretion in accordance with mainland China tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities. WFOEs also have the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, the WFOEs have the ability, at their sole discretion, to extract all of the economic benefit of our Onshore Holdcos through the Exclusive Business Cooperation Agreements.

In addition, under the Exclusive Business Cooperation Agreements and the Exclusive Option Agreements, the WFOEs have absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as WFOEs' prior written consent is required before any distribution can be made. In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through WFOE and, at our Company's sole discretion, can receive 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.

In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 1 to the Accountant's Report in Appendix I to this document.

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 WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.