

## CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions with certain persons who will become our connected persons upon the Listing under the Listing Rules, the details of which are set out below. The transactions disclosed in this section will continue after the Listing and hence will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon the Listing.

### (A) CONNECTED PERSONS

We have entered into transactions with the following parties which will become our connected persons upon the Listing:

#### 1. Associates of Mr. He

As a party to the Deed of Acting-in-concert, Mr. He is a Controlling Shareholder. He holds the equity interests in certain companies as set out below:

| <u>Name of company</u>                                                                               | <u>Mr. He's equity interest<br/>in the company</u> |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| (i) Midea Holding Company (together with its subsidiaries, the "Midea Holding Group") . . . . .      | 94.55%                                             |
| (ii) Midea Group Company (together with its subsidiaries, "Midea Group") . . . . .                   | 33.29% <sup>(1)</sup>                              |
| (iii) Midea Development (HK) . . . . .                                                               | 100% <sup>(2)</sup>                                |
| (iv) Midea Holding (International) Limited ("Midea Holding (International)", 美的控股(國際)有限公司) . . . . . | 100% <sup>(3)</sup>                                |

*Notes:*

- (1) As of the Latest Practicable Date, Midea Group Company was held as to 33.29% by Midea Holding Company.
- (2) As of the Latest Practicable Date, Midea Development (HK) was wholly owned by Foshan Midea, which in turn was wholly owned by Midea Holding Company.
- (3) As of the Latest Practicable Date, Midea Holding (International) was wholly owned by Midea Holding Company.

The aforementioned companies are associates of Mr. He and therefore our connected persons upon the Listing.

#### 2. Foshan Shunde Yinghai Investment Company Limited ("Yinghai Investment", 佛山市順德區盈海投資有限公司)

Mr. He Jianfeng is our non-executive Director and holds 27.27% equity interest in Yinghai Investment. Since the sole director of Yinghai Investment is appointed by Mr. He Jianfeng (through Infore Investments Holding Group Co., Ltd. (盈峰投資控股集團有限公司)<sup>(1)</sup>, in which Mr. He Jianfeng has 100% equity interest) and accustomed to taking voting instructions from Mr. He Jianfeng in relation to exercising his duties as a sole director set out in the articles of association of Yinghai Investment, Mr. He Jianfeng has control over the board of Yinghai Investment. Accordingly, Yinghai Investment is an associate of Mr. He Jianfeng and therefore our connected person upon the Listing.

*Note:*

- (1) As of the Latest Practicable Date, Infore Investments Holding Group Co., Ltd. (盈峰投資控股集團有限公司) was held by Mr. He Jianfeng and Foshan Yingfeng Trading Company Limited (佛山市盈峰貿易有限公司, which in turn was held by Mr. He Jianfeng as to 99.50%), as to 98% and 2%, respectively.

## CONTINUING CONNECTED TRANSACTIONS

### (B) SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

| Transactions                                                                         | Applicable Listing Rule relating to the exemption | Waiver sought  |
|--------------------------------------------------------------------------------------|---------------------------------------------------|----------------|
| <i>Wholly-exempt continuing connected transactions</i>                               |                                                   |                |
| 1. Trademark Licensing Agreement with Midea Group Company . . . . .                  | 14A.76(1)(a)                                      | Not applicable |
| 2. Yingfeng Property Leases with Yinghai Investment . . . . .                        | 14A.76(1)(a)                                      | Not applicable |
| 3. Sharing of office space with Midea Holding (International). . . . .               | 14A.76(1)(a)                                      | Not applicable |
| 4. Provision of the Information Technology Support Services by Midea Group . . . . . | 14A.76(1)(a)                                      | Not applicable |
| 5. Provision of the Property Management Services by our Group . . . . .              | 14A.76(1)(a)                                      | Not applicable |
| 6. Guarantees provided by close associates of Mr. He . . . . .                       | 14A.90                                            | Not applicable |
| <i>Partially-exempt continuing connected transactions</i>                            |                                                   |                |
| 1. Provision of the Household Technology Products by Midea Group . . . . .           | 14A.76(2)(a)                                      | Announcement   |

### (C) WHOLLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions for our Company which will constitute continuing connected transactions for our Company exempt from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### 1. Trademark Licensing Agreement with Midea Group Company

##### *Description of the Transaction*

We have historically used the Trademarks (as defined below) registered in the name of Midea Group Company. In anticipation of the Global Offering and to ensure that our Group will continue to be able to use the Trademarks, on January 18, 2018, a trademark licensing agreement (the "**Trademark Licensing Agreement**") was entered into between Midea Group Company and Midea Construction (HK) pursuant to which Midea Group Company agreed to grant Midea Construction (HK) and other members of our Group (including our Company) the right to use (i) three trademarks registered in the name of Midea Group Company in the PRC; and (ii) two trademarks (together with the three trademarks under (i) above, the "**Trademarks**") to be registered in the name of Midea Group Company in Hong Kong (in the event that such applications are successful and such Trademarks are duly registered), at a total consideration of HK\$10 million each year (collectively, the "**Trademark Licenses**") on a non-exclusive basis in connection with our operations for an initial term of 10 years commencing from January 1, 2018 and will be renewed automatically every 10 years from the initial expiry date to the extent permissible under the Listing Rules, relevant laws and regulations.

## CONTINUING CONNECTED TRANSACTIONS

Details of the Trademark Licenses are set forth below:

| No. | Trademark                                                                          | Place of registration/<br>application | Registration No./Application No. | Registered proprietor/<br>Applicant | Licensee                | Class          | License Period                       |
|-----|------------------------------------------------------------------------------------|---------------------------------------|----------------------------------|-------------------------------------|-------------------------|----------------|--------------------------------------|
| 1.  |   | PRC                                   | 10428047                         | Midea Group Company                 | Midea Construction (HK) | 36             | January 1, 2018 to December 31, 2027 |
| 2.  |   | PRC                                   | 1475479                          | Midea Group Company                 | Midea Construction (HK) | 37             | January 1, 2018 to December 31, 2027 |
| 3.  |   | PRC                                   | 9344981                          | Midea Group Company                 | Midea Construction (HK) | 43             | January 1, 2018 to December 31, 2027 |
| 4.  |   | Hong Kong                             | 304378988AA <sup>(1)</sup>       | Midea Group Company                 | Midea Construction (HK) | 37, 43, 44     | January 1, 2018 to December 31, 2027 |
| 5.  |   | Hong Kong                             | 304378988AB <sup>(2)</sup>       | Midea Group Company                 | Midea Construction (HK) | 36             | January 1, 2018 to December 31, 2027 |
| 6.  |  | Hong Kong                             | 304378979 <sup>(3)</sup>         | Midea Group Company                 | Midea Construction (HK) | 36, 37, 43, 44 | January 1, 2018 to December 31, 2027 |

*Notes:*

- (1) As of the Latest Practicable Date, the trademark application has passed the examination procedures, and a statutory period of three months for opposition by third parties from the date of publication (i.e. June 15, 2018).
- (2) As of the Latest Practicable Date, Midea Group Company was in the process of applying for the registration of such Trademark in Hong Kong. On February 1, 2018, Midea Group Company received certain opposing comments from the Trade Marks Registry of the Intellectual Property Department of Hong Kong (the “**Trade Marks Registry**”) regarding the similarity with certain existing trademarks, which, as confirmed by Midea Group Company, most of which were in fact trademarks previously registered by it. Midea Group Company has been in communication with the Trade Marks Registry and submitted responses to the Trade Marks Registry on May 23, 2018. Our Directors believe that in the event that Midea Group Company is unable to register or procure any interest in such Trademark in Hong Kong, there will be no material impact on the operations of our Group since substantially all of our operations are in China.
- (3) As of the Latest Practicable Date, the trademark application has passed the examination procedures, and was published on the Hong Kong Intellectual Property Journal on July 6, 2018. It is expected that the trademark will be registered under the Trade Marks Ordinance (Chapter 559 of the Hong Kong Laws) after a statutory period of three months for opposition by third parties from the date of publication.

## CONTINUING CONNECTED TRANSACTIONS

### *Historical Transaction Amounts*

The following table sets out the total licensing fees incurred by us in respect of the Trademarks during the Track Record Period:

| For the year ended December 31, |         |                      | For three months ended<br>March 31, |
|---------------------------------|---------|----------------------|-------------------------------------|
| 2015                            | 2016    | 2017                 | 2018                                |
| RMB'000                         | RMB'000 | RMB'000              | HK\$'000                            |
| Nil                             | Nil     | 6,838 <sup>(1)</sup> | 2,500                               |

*Note:*

- (1) The amount represented the aggregate licensing fees we paid to Midea Group Company in 2017 for the use of the Trademarks for the five years ended December 31, 2017.

### *Consideration*

The licensing fees have been arrived at after arm's length negotiations between our Company and Midea Group Company with reference to, among other things, the brand value and the intended use of the Trademarks. "Midea" (美的) is a well-known and famous brand in the household appliances and electronic products market in China with an estimated brand value of US\$3,896 million according to BrandZ™, an independent third party valuer. In light of the brand value of "Midea" (美的) in China, our Directors are of the view that the licensing fees are on terms that are favourable to our Group.

### *Reasons for and benefits of the transaction*

We have historically been using the Trademarks for our real estate projects and operations. Termination of the Trademark Licenses will cause unnecessary inconvenience to our operations. We consider that the "Midea" (美的) brand represents our consistent product quality and aspiration to help our customers achieve high standard, and that such existing brand image allows us to resonate with our customers and facilitate our market and business expansion. As such, our Directors consider that the use of the Trademarks in our Group's business will provide leverage and enhance the image and profile of our real estate projects in China. Our Directors are of the view that the Trademark Licensing Agreement has been arrived at after arm's length negotiations and that the terms are fair and reasonable, on normal commercial terms or better and are in the interest of our Company and Shareholders as a whole.

### *Listing Rules Implications*

As each of the applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules for the transactions under the Trademark Licensing Agreement is expected to be less than 0.1% on an annual basis, the Trademark Licenses fall within the *de minimis* threshold under Rule 14A.76(1)(a) of the Listing Rules and are exempt from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

### 2. Yingfeng Property Leases with Yinghai Investment

#### *Description of the Transaction*

During the Track Record Period and up to the Latest Practicable Date, our Group, as lessee, entered into property leases (the “**Yingfeng Property Leases**”) with Yinghai Investment in respect of certain properties (the “**Yingfeng Properties**”) as set out below:

| No. | Date of the Yingfeng Property Leases | Lessor             | Lessee                          | Yingfeng Properties                                                                                                                                                     | Term                                 | Use of property | Property size/      | Monthly rental                                                                                                                                                                          |
|-----|--------------------------------------|--------------------|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     |                                      |                    |                                 |                                                                                                                                                                         |                                      |                 | GFA                 |                                                                                                                                                                                         |
| 1.  | March 28, 2018                       | Yinghai Investment | Midea Real Estate Group Company | 13/F, Yingfeng Tower, 8 Yixing Road, Beijiao Town, Shunde District, Foshan City, Guangdong Province, the PRC (“ <b>Yingfeng Tower</b> ”) (中國廣東省佛山市順德區北滘鎮怡興路8號盈峰商務中心13樓) | April 1, 2018 to May 31, 2021        | Office premises | 600 square meters   | RMB42,000 (for the period of June 1, 2018 to May 31, 2020; free of rental from the period of April 1, 2018 to May 31, 2018); RMB46,200 (for the period of June 1, 2020 to May 31, 2021) |
| 2.  | March 28, 2018                       | Yinghai Investment | Midea Real Estate Group Company | 15/F, Yingfeng Tower                                                                                                                                                    | April 1, 2018 to March 31, 2020      | Office premises | 760 square meters   | RMB41,800                                                                                                                                                                               |
| 3.  | January 2, 2018                      | Yinghai Investment | Midea Real Estate Group Company | 3/F, Yingfeng Tower                                                                                                                                                     | January 1, 2018 to December 31, 2019 | Office premises | 1,521 square meters | RMB83,655 (effective on April 1, 2018; free of rental from the period of January 1, 2018 to March 31, 2018)                                                                             |
| 4.  | January 1, 2018                      | Yinghai Investment | Midea Real Estate Group Company | 6/F, Yingfeng Tower                                                                                                                                                     | January 1, 2018 to December 31, 2019 | Office premises | 1,521 square meters | RMB91,260                                                                                                                                                                               |
| 5.  | July 1, 2017                         | Yinghai Investment | Midea Real Estate Group Company | 10/F, Yingfeng Tower                                                                                                                                                    | July 1, 2017 to December 31, 2019    | Office premises | 1,520 square meters | RMB83,600                                                                                                                                                                               |

## CONTINUING CONNECTED TRANSACTIONS

| No. | Date of the Yingfeng Property Leases | Lessor             | Lessee                          | Yingfeng Properties  | Term                              | Use of property | Property size/      |                |
|-----|--------------------------------------|--------------------|---------------------------------|----------------------|-----------------------------------|-----------------|---------------------|----------------|
|     |                                      |                    |                                 |                      |                                   |                 | GFA                 | Monthly rental |
| 6.  | July 1, 2017                         | Yinghai Investment | Midea Real Estate Group Company | 11/F, Yingfeng Tower | July 1, 2017 to December 31, 2019 | Office premises | 1,520 square meters | RMB83,600      |
| 7.  | April 1, 2016                        | Yinghai Investment | Midea Real Estate Group Company | 20/F, Yingfeng Tower | April 1, 2016 to March 31, 2019   | Office premises | 1,521 square meters | RMB91,260      |

The Yingfeng Property Leases are due on March 31, 2019, December 31, 2019, March 31, 2020 and May 31, 2021 (as the case may be) and we intend to renegotiate the rental fees with Yinghai Investment before respective due dates. If we agree on the new rental fees, we will enter into new property lease agreement(s) with Yinghai Investment in respect of the Yingfeng Properties in compliance with all relevant requirements under the Listing Rules and applicable laws and regulations.

### *Historical transaction amounts*

The following table sets out the total rental fees we paid to Yinghai Investment in respect of the Yingfeng Properties during the Track Record Period:

| For the year ended December 31, |         |         | For three months ended |
|---------------------------------|---------|---------|------------------------|
| 2015                            | 2016    | 2017    | March 31,              |
| RMB'000                         | RMB'000 | RMB'000 | RMB'000                |
| Nil                             | 821     | 2,061   | 738                    |

### *Annual caps*

The following table sets forth the maximum annual rental fees payable by us to Yinghai Investment in respect of the Yingfeng Properties for each of the three years ending December 31, 2020:

| For the year ending December 31, |         |         |
|----------------------------------|---------|---------|
| 2018                             | 2019    | 2020    |
| RMB'000                          | RMB'000 | RMB'000 |
| 5,800                            | 6,300   | 6,900   |

In arriving at the above annual caps, our Directors have considered the following factors:

- the monthly rental fees as agreed under the Yingfeng Property Leases; and

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- an estimated approximate 10% increase in 2019 and 2020 in annual rental fees when we renegotiate the rental fees with Yinghai Investment, if applicable, taking into account the historical rental fees for properties of similar size and with similar attributes where the Yingfeng Properties are located.

### *Consideration*

The annual rental fees were and will be determined by the parties through arm's length negotiations with reference to the then prevailing market rate for similar premises where the Yingfeng Properties are located.

### *Reasons for and benefits of the transaction*

We have historically leased the Yingfeng Properties from Yinghai Investment for use as our office premises. In light of the satisfactory office building quality maintenance work and stable lease term provided by Yinghai Investment to us, we intend to continue to lease the Yingfeng Properties following the Listing. In addition, termination of the Yingfeng Property Leases will incur unnecessary costs and cause unnecessary disruption to our operations. Moreover, for the purpose of improving organizational efficiency on a regional scale, our staff from Yuezhong Regional Headquarters was relocated to our headquarters at Yingfeng Tower. Our Directors are of the view that the Yingfeng Property Leases have been arrived at after arm's length negotiations and that the terms are fair and reasonable, on normal commercial terms or better and are in the interest of our Company and Shareholders as a whole.

### *Listing Rules Implications*

Since the Yingfeng Property Leases were all entered into between Midea Real Estate Group Company and Yinghai Investment, the Yingfeng Property Leases have been aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules for the Yingfeng Property Leases is expected to be less than 0.1% on an annual basis, the Yingfeng Property Leases fall within the *de minimis* threshold under Rule 14A.76(1)(a) of the Listing Rules and are exempt from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

### 3. Sharing of Office Space with Midea Holding (International)

#### *Description of the Transaction*

On May 1, 2018, our Group entered into an office space sharing agreement (the “**Office Sharing Agreement**”) with Midea Holding (International) in respect of the sharing of a property (the “**Shared Premises**”) which Midea Holding (International) leased from an independent third party as set out below.

| Date of the Office Sharing Agreement | Parties                                                   | Shared Premises                                                                                                | Term                             | Use of property | Monthly fees  |
|--------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|----------------------------------|-----------------|---------------|
| May 1, 2018                          | Midea Holding (International) and Midea Construction (HK) | Suites 3906–10, 39/F, Tower 6, The Gateway, Harbour City, No. 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong | May 1, 2018 to December 31, 2018 | Office premises | HK\$71,697.33 |

Pursuant to the Office Sharing Agreement, Midea Holding (International) has also agreed to provide us with general office administrative supports, such as reception services, cleaning services and office supply, and other miscellaneous support services.

The Office Sharing Agreement is due on December 31, 2018 and we intend to renegotiate the monthly fees with Midea Holding (International) before the end of 2018. If we agree on the new monthly fees, we will enter into a new office space sharing agreement with Midea Holding (International) in respect of the Shared Premises in compliance with all relevant requirements under the Listing Rules and applicable laws and regulations.

#### *Historical transaction amounts*

The following table sets out the total monthly fees incurred by us in respect of the Shared Premises during the Track Record Period:

| For the year ended December 31, |          |          | For three months ended |
|---------------------------------|----------|----------|------------------------|
| 2015                            | 2016     | 2017     | March 31,              |
| HK\$'000                        | HK\$'000 | HK\$'000 | 2018                   |
| HK\$'000                        | HK\$'000 | HK\$'000 | HK\$'000               |
| Nil                             | 297      | 389      | 186                    |



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### *Annual caps*

The following table sets forth the maximum annual fees payable by us to Midea Holding (International) in respect of the Shared Premises for each of the three years ending December 31, 2020:

| For the year ending December 31, |          |          |
|----------------------------------|----------|----------|
| 2018                             | 2019     | 2020     |
| HK\$'000                         | HK\$'000 | HK\$'000 |
| 1,100                            | 1,200    | 1,300    |

In arriving at the above annual caps, our Directors have considered the following factors:

- the monthly fees as agreed under the Office Sharing Agreement; and
- an estimated approximate 10% increase in the annual fees when we renegotiate the fees with Midea Holding (International), if applicable, taking into account (i) the historical rental fees for properties of similar size and with similar attributes where the Shared Premises are located; and (ii) the general office administrative supports, such as provision of reception services, cleaning services and office supply, and other miscellaneous support services, provided by Midea Holding (International).

### *Consideration*

The annual fees were and will be determined by the parties through arm's length negotiations with reference to the then prevailing market rate for similar premises where the Shared Premises are located and the office administrative support demanded by us.

### *Reasons for and benefits of the transaction*

We have historically used the Shared Premises from Midea Holding (International) as our office premises. In view of the prime location of the Shared Premises and the satisfactory maintenance work and reasonable terms provided by Midea Holding (International) to us, we intend to continue to use the Shared Premises following the Listing. In addition, termination of the Office Sharing Agreement will incur unnecessary costs and cause unnecessary inconvenience to our operations. Our Directors are of the view that the Office Sharing Agreement has been arrived at after arm's length negotiations and that the terms are fair and reasonable, on normal commercial terms or better and are in the interest of our Company and Shareholders as a whole.

### *Listing Rules Implications*

As each of the applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules for the Office Sharing Agreement is expected to be less than 0.1% on an annual basis, the transactions contemplated under the Office Sharing Agreement falls within the *de minimis* threshold under Rule 14A.76(1)(a) of

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the Listing Rules and is exempt from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### 4. Provision of the Information Technology Support Services by Midea Group

During the Track Record Period, Midea Group provided information technology support services (the “**Information Technology Support Services**”) to our Group, including:

- (i) information technology related technical support, including information technology related infrastructure planning;
- (ii) construction, operation and maintenance of information technology systems, including application system design, development, testing, operation and maintenance support, provision of data center facility and provision of hardware and software maintenance; and
- (iii) hardware and software procurement, including hardware such as servers, storage and network equipment, and software such as databases, intermediary software and antivirus software.

#### *Historical transaction amounts*

The following table sets out the services fees incurred by us in respect of the Information Technology Support Services during the Track Record Period:

| For the year ended December 31, |         |         | For three months ended |
|---------------------------------|---------|---------|------------------------|
| 2015                            | 2016    | 2017    | March 31,              |
| RMB'000                         | RMB'000 | RMB'000 | 2018                   |
| RMB'000                         | RMB'000 | RMB'000 | RMB'000                |
| 1,311                           | 1,226   | 1,800   | 450                    |

#### *Information Technology Support Services Framework Agreement*

On September 12, 2018, our Company entered into a framework agreement (the “**Information Technology Support Services Framework Agreement**”) with Midea Group Company to govern the terms and conditions of the transactions between the relevant members of our Group and the relevant members of Midea Group in connection with the provision of the Information Technology Support Services to our Group.

Pursuant to the Information Technology Support Services Framework Agreement, Midea Group Company has agreed, where any member of Midea Group is selected as the supplier following the relevant selection process, to provide the Information Technology Support Services to our Group according to the separate agreements in respect of each of the transactions to be entered into by the relevant members of our Group with the relevant members of Midea Group from time to time. The Information Technology Support Services

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Framework Agreement will take effect upon the Listing and will be valid until December 31, 2020, renewable by mutual agreement of the parties, subject to compliance with all relevant requirements under the Listing Rules and applicable laws and regulations.

### *Annual caps*

The following table sets forth the maximum amount of services fees payable by us to Midea Group in respect of the Information Technology Support Services for each of the three years ending December 31, 2020:

| For the year ending December 31, |         |         |
|----------------------------------|---------|---------|
| 2018                             | 2019    | 2020    |
| RMB'000                          | RMB'000 | RMB'000 |
| 2,000                            | 2,200   | 2,400   |

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical services fees we paid to Midea Group; and
- the projected increase in the demand for the Information Technology Support Services provided by Midea Group under the Information Technology Support Services Framework Agreement based on the estimated business growth and operational needs of our Group.

### *Consideration*

The consideration will be determined based on the quotations provided by other qualified third party supplier(s) for similar goods of similar quality upon the parties' arm's length negotiations with reference to, among other things, the estimated manpower to be incurred by Midea Group based on its past experience on installing the same and providing the related Information Technology Support Services to us and the actual costs of the relevant computer hardware, systems and equipment. There is no minimum subscription amount for the Information Technology Support Services, and the subscription amount will be determined in the separate agreements to be entered into from time to time.

For details of our supplier selection process, see “— (E) Internal Control Measures” below.

### *Reasons for and benefits of the transaction*

Given the established relationship between our Group and Midea Group, it is more efficient economically and administratively for our Group to procure the Information Technology Support Services from Midea Group rather than to approach new service providers. Our Directors are of the view that the Information Technology Support Services Framework Agreement has been arrived at after arm's length negotiations and that the terms are fair and reasonable, on normal commercial terms or better and are in the interest of our Company and Shareholders as a whole.

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To ensure that our continuing connected transactions will be entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and on normal commercial terms or better, we have adopted certain internal control measures. For details, see “— (E) Internal Control Measures” below.

### *Listing Rules Implications*

As each of the applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules for the Information Technology Support Services Framework Agreement is expected to be less than 0.1% on an annual basis, the Information Technology Support Services falls within the *de minimis* threshold under Rule 14A.76(1)(a) of the Listing Rules and is exempt from the reporting, annual review, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

### **5. Provision of Property Management Services by our Group**

#### *Description of the Transaction*

We have historically provided, during our ordinary and usual course of business, management services in respect of real estate projects, offices, art museum and hotels (the “**Property Management Services**”) to the Midea Holding Group.

#### *Property Management Services Framework Agreement*

On September 12, 2018, Midea Holding Company entered into a framework agreement (the “**Property Management Services Framework Agreement**”) with our Company, pursuant to which our Company agreed, where a member of our Group is selected as the supplier following the relevant selection process, to provide the Property Management Services to the Midea Holding Group according to the separate agreements in respect of each of the transactions to be entered into by the relevant members of our Group with the relevant members of the Midea Holding Group from time to time. The Property Management Services Framework Agreement will take effect upon Listing and will be valid until December 31, 2020, renewable by mutual agreement of the parties, subject to compliance with all relevant requirements under the Listing Rules and applicable laws and regulations.

#### *Historical transaction amounts*

The following table sets out the fees incurred by the Midea Holding Group in respect of the Property Management Services during the Track Record Period:

| For the year ended December 31, |         |         | For three months ended<br>March 31, |
|---------------------------------|---------|---------|-------------------------------------|
| 2015                            | 2016    | 2017    | 2018                                |
| RMB’000                         | RMB’000 | RMB’000 | RMB’000                             |
| Nil                             | Nil     | 895     | 1,136                               |

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### *Annual caps*

The following table sets forth the maximum annual fees payable to us by the Midea Holding Group in respect of the Property Management Services for each of the three years ending December 31, 2020:

| For the year ending December 31, |         |         |
|----------------------------------|---------|---------|
| 2018                             | 2019    | 2020    |
| RMB'000                          | RMB'000 | RMB'000 |
| 6,000                            | 6,000   | 6,000   |

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amount for each type of the Property Management Services;
- the number of contracts awarded to us and an estimated number of contracts that may be awarded to us by the Midea Holding Group, taking into account the number of hotels, art museum and hospital under the Midea Holding Group, the respective property sizes, the specific services to be provided and the operating costs of such services (including labor costs, material costs and administrative costs); and
- the property management fees charged by us for services of similar scope and quality we provide to independent third parties.

### *Consideration*

The fees will be determined by the parties through arm's length negotiations with reference to the then prevailing property management fees charged by us for similar services, taking into consideration the required scope of the Property Management Services and the required number of personnel, and will be no more favorable than the fee quotes of similar scope given by our Group to independent third parties.

### *Reasons for and benefits of the transaction*

We have been selected as the provider of the Property Management Services by the Midea Holding Group for the quality of our services and we provide such services to the Midea Holding Group during the ordinary course of our business. Our Directors are of the view that the Property Management Services Framework Agreement has been arrived at after arm's length negotiations and that the terms are fair and reasonable, on normal commercial terms or better and are in the interest of our Company and Shareholders as a whole.

To ensure that our continuing connected transactions will be entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and on normal commercial terms or better, we have adopted certain internal control measures. For details, see “— (E) Internal Control Measures” below.

## CONTINUING CONNECTED TRANSACTIONS

### *Listing Rules Implications*

As each of the applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules for the Property Management Services Framework Agreement is expected to be less than 0.1% on an annual basis, the Property Management Services falls within the *de minimis* threshold under Rule 14A.76(1)(a) of the Listing Rules and is exempt from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **6. Guarantees provided by close associates of Mr. He**

Certain close associates of Mr. He have provided guarantees (the "**Connected Guarantees**") in favor of our Group in respect of certain financing arrangements entered into by our Group. We have no current plan to release all the outstanding Connected Guarantees prior to completion of the Listing as our Directors believe that the Connected Guarantees are in the best interests of our Group and Shareholders as a whole. For more details of Connected Guarantees as well as the reasons for and benefits of the Connected Guarantees, see "Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders — Financial Independence" of this prospectus.

### *Listing Rules Implications*

The Connected Guarantees constitute financial assistance received by our Group from our connected persons for the benefit of our Group under Rule 14A.90 of the Listing Rules. Since the Connected Guarantees are on normal commercial terms or better to our Group and are not secured by the assets of our Group, the Connected Guarantees are fully exempt from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **(D) PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

##### **1. Provision of the Household Technology Products by Midea Group**

We have historically, during our ordinary and usual course of business, purchased household appliances, including kitchen appliances, water heating machines, water purification equipment, washing machines and air condition machines, and Smart Home technology products, including smart household appliances (such as kitchen appliances and restroom appliances), security monitoring products and smart entertainment products (collectively, the "**Household Technology Products**"), from Midea Group.

## CONTINUING CONNECTED TRANSACTIONS

### *Historical transaction amounts*

The following table sets out the total amount incurred by us in relation to the purchase of the Household Technology Products from Midea Group during the Track Record Period:

| For the year ended December 31, |         |         | For three months ended<br>March 31, |
|---------------------------------|---------|---------|-------------------------------------|
| 2015                            | 2016    | 2017    | 2018                                |
| RMB'000                         | RMB'000 | RMB'000 | RMB'000                             |
| 1,071                           | Nil     | 1,576   | 106                                 |

### *Household Technology Products Framework Purchase Agreement*

On September 12, 2018, our Company entered into a framework purchase agreement (the “**Household Technology Products Framework Purchase Agreement**”) with Midea Group Company to govern the terms and conditions of the transactions between our Group and Midea Group in connection with the provision of the Household Technology Products to our Group. Pursuant to the Household Technology Products Framework Purchase Agreement, Midea Group Company agreed to provide the Household Technology Products to our Group according to the separate agreements in respect of each of the transactions to be entered into by the relevant members of our Group with the relevant members of Midea Group from time to time. The Household Technology Products Framework Purchase Agreement will take effect upon the Listing and will be valid until December 31, 2020, renewable by mutual agreement of the parties, subject to compliance with all relevant requirements under the Listing Rules and applicable laws and regulations.

### *Annual caps*

The following table sets forth the maximum annual amount payable by us to Midea Group for each of the three years ending December 31, 2020 in relation to the purchase of the Household Technology Products by our Group:

| For the year ending December 31, |         |         |
|----------------------------------|---------|---------|
| 2018                             | 2019    | 2020    |
| RMB'000                          | RMB'000 | RMB'000 |
| 12,000                           | 145,000 | 471,000 |

The proposed annual caps for the three years ending December 31, 2020, being the estimated total amounts payable by our Group as set out above, are determined with reference to:

- the historical unit price of the Household Technology Products during the Track Record Period;
- the historical transaction amount of the Household Technology Products for the seven months ended July 31, 2018 (i.e. approximately RMB7.3 million);

## CONTINUING CONNECTED TRANSACTIONS

- the expected rapid growth in demand of Household Technology Products by our Group in 2019 and 2020
  - (i) to implement our strategy to apply the concept of 5M Smart Health Community, starting from October 2017, our pre-sold residential property projects will generally be furnished with our Smart Home solution. Taking into account the property development period of residential development projects and the units equipped with Smart Home Solutions expected to be gradually delivered in 2019, the corresponding purchase of the Household Technology Products will increase significantly as compared to 2018. In particular, we expect more than 2,100 (in existing 4 projects) and 13,300 (in existing 22 projects) units of our properties pre-sold in 2016 and 2017 and to be delivered in 2018 and 2019, respectively, will be furnished with the Smart Home solution. Taking into account our pre-sold records in 2016 and 2017, we project that more than 43,700 units (in existing 39 projects and future 18 projects) of our properties to be furnished with our Smart Home solution will be pre-sold by the end of 2018 and delivered in 2020. This is the main factor that attributes to the significant increase in the proposed annual caps as compared to the historical transaction amounts during the Track Record Period. For further details of our Smart Homes solution, see “Business — Property Development and Sales — Overview — Smart Home” of this prospectus;
  - (ii) by end of 2018, it is expected that most of our residential properties for pre-sale will be furnished with our Smart Home solutions. The expected increase in demand of Household Technology Products is also in line with our plan to integrate more Smart Home products into our Smart Home system and upgrade our 5M Smart Health Community to gradually become a Smart Home solutions provider for third party customers. For further details of our strategies, see “Business — Our Strategies — Continue to enhance one-stop Smart Home and living solutions”; and
- a buffer of 10% to cater for potential increase in the unit prices of the Household Technology Products and number of properties to be delivered in the next three years.



## CONTINUING CONNECTED TRANSACTIONS

### *Consideration*

The purchase prices will be based on the quotations provided by other qualified third supplier(s) for similar goods of similar quality upon the parties' arm's length negotiations with reference to, among other things, the costs, scales, quality and reliability of the Smart Home Technology Products to be provided by Midea Group to us.

For details of our supplier selection process, see “— (E) Internal Control Measures” below.

### *Reasons for and benefits of the transactions*

We have engaged Midea Group, a leader of home appliances industry in China according to the Industry Report, for the provision of the Household Technology Products primarily because (i) the production capacity of Midea Group allows it to meet our increase in demand in the case that we plan to expand our operations; (ii) Midea Group is reputable and has a certain degree of brand influence in the relevant industry, and according to the Industry Report, Midea Group displays comparative advantages in relation to a number of factors, including product quality, service quality, complete range of products; (iii) we have established a stable relationship with Midea Group during the course of which we consider it has provided us with a steady and reliable supply of high quality products and services in accordance with our specifications; and (iv) we consider that the prices and terms of services offered by Midea Group are on normal commercial terms or better. Our Directors are of the view that the Household Technology Products Framework Purchase Agreement is in the interest of our Company and Shareholders as a whole.

To ensure that our continuing connected transactions will be entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and on normal commercial terms or better, we have adopted certain internal control measures. For details, see “— Internal Control Measures” below.

### *Implications under the Listing Rules*

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed aggregated annual caps in respect of the purchase of the Household Technology Products by Midea Group pursuant to the Household Technology Products Framework Purchase Agreement exceeds 0.1% but all applicable percentage ratios (other than the profits ratio) are less than 5% on an annual basis, the transactions contemplated under the Household Technology Products Framework Purchase Agreement will be subject to the reporting, annual review and announcement requirements but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

### (E) INTERNAL CONTROL MEASURES

Our capital operation center consists of five members, including Mr. Zeng Chaoming (the managing director of our capital operation center and our joint company secretary), Ms. Chan Bo Shan (our joint company secretary), a senior manager of capital operation, a manager of information disclosure and a manager of project management. It will be responsible for managing our connected transactions and implementing our internal control measures to ensure that our connected transactions will comply with relevant rules and regulations and entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and on normal commercial terms or better. It will establish a centralized database to keep track of information in connection with our connected persons, the approved annual caps and the actual continuing connected transactions of our Group. In addition, our capital operation center will update the list of our connected persons from time to time and despatch such list to the members of our Group. To ensure awareness, each member of our Group will have to confirm that it is aware of the list of our connected persons. In the event that a member of our Group is unable to identify whether any transaction is a connected transaction of our Company, it will submit the relevant information to our capital operation center, which will make the decision. The relevant member of our Group will coordinate with our capital operation center to carry out the necessary steps to satisfy the relevant reporting, annual review, announcement, Shareholders' approval and any other requirements (if applicable) under the Listing Rules and applicable laws and regulations.

Further, in respect of our purchases of products and/or services, where a connected person is a potential supplier, we will adopt the following selection process after the Listing:

- (i) for products and/or services which are commonly available in the market, we will obtain supply proposals from a minimum of three potential suppliers (including at least two independent third parties) based on our needs and the criteria set out by our relevant department;
- (ii) for products and/or services which are uncommon in the market, our capital operation center will assess bi-annually whether there are suppliers for such products and/or services and obtain fee quotes based on our needs and the criteria set out by our relevant department as follows: (a) if there is only one supplier, a fee quote will be obtained from such supplier; (b) if there are two suppliers, fee quotes will be obtained from such suppliers; and (c) if there are three or more suppliers, fee quotes will be obtained from at least three of such suppliers (including at least two independent third parties); and
- (iii) our capital operation center will conduct in-depth evaluation using a scoring system on all potential suppliers which will each be assessed on areas including prices, quality and ability to satisfy our specifications. Suppliers must receive scores beyond certain minimum thresholds to be eligible for selection and the supplier(s) with the highest score(s) will be selected. As such, a supplier which is a connected person will only be selected if it is considered to have competitive advantages in the provision of the relevant products and/or services.

## CONTINUING CONNECTED TRANSACTIONS

### **(F) APPLICATION FOR WAIVER**

The transactions described under “— (D) Partially-Exempt Continuing Connected Transactions” above constitute our continuing connected transactions under the Listing Rules, which are subject to the reporting, annual review and announcement requirements but are exempt from the independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules. As such transactions are expected to be carried out on a continuing basis and to extend over a period of time, our Directors are of the view that strict compliance with the announcement requirement under the Listing Rules would be impracticable and unduly burdensome and would impose unnecessary administrative costs upon our Group.

In respect of such continuing connected transactions, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has granted, a waiver exempting us from strict compliance with the announcement requirement of the Listing Rules, subject to the aggregate values of the continuing connected transactions for each financial year not exceeding the relevant amounts set forth in the respective annual caps (as stated above). We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to such continuing connected transactions.

### **(G) DIRECTORS’ VIEWS**

Our Directors (including our independent non-executive Directors) consider that the continuing connected transactions described under “— (D) Partially-Exempt Continuing Connected Transactions” above have been entered into, and will be carried out, in the ordinary and usual course of our business, on normal commercial terms and in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Our Directors (including our independent non-executive Directors) are also of the view that the annual caps of the continuing connected transactions under “— (D) Partially-Exempt Continuing Connected Transactions” above are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

### **(H) JOINT SPONSORS’ VIEW**

Based on the due diligence findings and the representations and confirmations from our Group, the Joint Sponsors are of the view that the continuing connected transactions described under “— (D) Partially-Exempt Continuing Connected Transactions” above are entered into, and will be carried out (i) in the ordinary and usual course of our business; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. The Joint Sponsors are also of the view that the proposed annual caps for the partially-exempt continuing connected transactions under “— (D) Partially-Exempt Continuing Connected Transactions” above are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.