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QINGDAO AINNOVATION TECHNOLOGY GROUP CO., LTD*
青島創新奇智科技集團股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2121)

CONTINUING CONNECTED TRANSACTION
PROPOSED REVISION OF ANNUAL CAPS

PROPOSED REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTION

Reference is made to the Prospectus including, among others, the Framework Agreement entered into between the Company and Sinovation Ventures on 12 January 2022, pursuant to which, the Group will provide customized image detection technology services, including development, operation and maintenance of automatic machine learning image detection platforms, to a Designated Customer. In light of the reasons mentioned herein, the Company proposes to revise the proposed annual caps for the three years ending 31 December 2024 under the Framework Agreement.

IMPLICATIONS OF THE LISTING RULES

As at the date of this announcement, Sinovation Ventures held approximately 27.61% of the total issued share capital of the Company, and hence it is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions under the Framework Agreement entered into between the Company and Sinovation Ventures constitute continuing connected transactions of the Company under the Listing Rules. As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) of the revised proposed annual caps under the Framework Agreement exceeds 0.1% but is less than 5%, the Proposed Revision is subject to the annual reporting and announcement requirements but is exempted from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The agreement and the transactions thereunder are revenue in nature and are conducted in the ordinary and usual course of business of the Group and do not constitute notifiable transactions of the Company under Chapter 14 of the Listing Rules.

I. BACKGROUND

Reference is made to the Prospectus including, among others, the Framework Agreement entered into between the Company and Sinovation Ventures on 12 January 2022, pursuant to which, the Group will provide customized image detection technology services, including development, operation and maintenance of automatic machine learning image detection platforms, to a Designated Customer. In light of the reasons mentioned herein, the Company proposes to revise the proposed annual caps for the three years ending 31 December 2024 under the Framework Agreement.

II. FRAMEWORK AGREEMENT AND PROPOSED REVISION OF ANNUAL CAPS

Date

12 January 2022

Parties

The Company; and

Sinovation Ventures

Principal Terms

According to the Framework Agreement, the Group will provide customized image detection technology services, including development, operation and maintenance of automatic machine learning image detection platforms, to a Designated Customer.

The initial term of the Framework Agreement commenced on the listing date of the Company (i.e. 27 January 2022) and will end on 31 December 2024, and can be renewed upon its expiry as agreed by the parties to the agreement.

Subject to the general principles as set out in the Framework Agreement, separate underlying agreements will be entered into which will set out the details of the services provided, price, payment method and other details of the service arrangements. The definitive terms of each of such agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties.

Pricing Policies

Fees received by the Group consist of (i) a fixed fee charged for the development of the image detection platforms; and (ii) fees for the subsequent use of the platforms with different ranges categorized by number of images detected.

Such fees shall be determined by relevant parties at arm's length negotiation on a cost-plus basis and shall be no more favorable than similar services our Group provided to other Independent Third Parties. Fee structure charged by Sinovation Ventures on the Designated Customer is identical to the fee structure charged by our Group on Sinovation Ventures under the Framework Agreement. Fees paid by the Designated Customer to Sinovation Ventures and fees paid by Sinovation Ventures to our Group were negotiated and agreed among the Designated Customer, Sinovation Ventures and our Group. After the Designated Customer pays the service fees to Sinovation Ventures, Sinovation Ventures would charge no more than 5% of such fees as rewards for facilitating the business cooperation of our Group and the Designated Customer which is determined at the arm's length negotiation between Sinovation Ventures and our Company, and pay the rest of the amounts to our Group. Fees paid to our Group after such deduction shall be still no less favorable than similar services our Group provides to other Independent Third Parties.

Historical Amounts

The fees charged for the provision of image detection technology services by the Group to the Designated Customer for the year ended 31 December 2021 and the six months ended 30 June 2022 were approximately RMB2,388,000 and RMB1,727,000, respectively.

Revised Annual Caps

For the three years ending 31 December 2024, the original annual caps and the proposed revised annual caps are set out below:

Unit: RMB'000

	For the year ending 31 December 2022		For the year ending 31 December 2023		For the year ending 31 December 2024	
	Original annual cap	Proposed revised annual cap	Original annual cap	Proposed revised annual cap	Original annual cap	Proposed revised annual cap
Maximum fees to be received by the Group relating to the provision of image detection technology services to the Designated Customer	3,500	7,000	4,500	9,000	6,000	12,000

Basis for the Proposed Revised Annual Caps

In determining the abovementioned proposed revised annual caps, the Company has considered the following factors:

- (i) The Group began to provide image detection technology services to Sinovation Ventures since 2020. Based on historical transaction amounts, such services were continued to expand to new business departments of Designated Customer while development was carried out in the first half of 2022 on the basis of the existing business cooperation. It is expected to record a significant increase in the service fees after the services being put into use successively in the second half of 2022. While the cooperation further evolved, the scale of cooperation continued to expand, and the image detection platforms were more widely applied since 2022. For the six months ended 30 June 2022, the actual transaction amount incurred was over RMB1.72 million. Taking into account the current operations and the growth trend, the Group expects the transaction amount to grow further in the second half of 2022 and reach approximately RMB6 million throughout 2022. In addition, in determining the revised annual cap for 2022, the Group has applied an additional buffer of 15% on the expected transaction amounts of approximately RMB6 million to cater to the potential needs for business growth and ensure the flexibility in the cooperation between the Group and the Designated Customer.
- (ii) Given the high efficiency of the Group in the provision of image detection technology services, the applications of these services provided by the Group were further expanded in business units and scenarios of the Designated Customer. On the basis of service applications in two of the business units of the Designated Customer, the Group recently expanded the scope of service applications again to cover two new business units of the Designated Customer and executed the service order agreement accordingly. Hence, it is reasonable to expect the annual transaction amount to exceed the original annual cap for 2022 to a larger extent.

In light of the existing business relationship between us and the Designated Customer, and the fact that the Designated Customer still has a high expectation for us in terms of business development and a demand for cooperation, the Group and the Designated Customer are looking forward to developing a more in-depth and extensive business relationship in 2023 and 2024, which will drive the continuous growth in the total cooperation amount. As a result, a reasonable estimation is made in relation to the annual caps for 2023 and 2024, based on the revised annual cap for 2022 and an annual incremental rate of approximately 30% for the transaction amounts.

(iii) In view of the effectiveness of the image detection technology services provided by the Group, the demand for image detection technology of our Group from the existing business units of the Designated Customer continued to grow and our platforms received more images of business scenarios for recognition. The increase in the usage frequency of the existing image detection platforms, the development of new scenarios and the number of image requests led to the rising number of images detected by the Group and boosted the fee charged by it for the image detection services accordingly. As such, it is reasonable to expect the growth in transaction amount to exceed the previous expectation for the three years ending 31 December 2024 to a larger extent.

Implications of the Listing Rules

As at the date of this announcement, Sinovation Ventures held approximately 27.61% of the total issued share capital of the Company, and hence it is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions under the Framework Agreement entered into between the Company and Sinovation Ventures constitute continuing connected transactions of the Company under the Listing Rules. As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) of the revised proposed annual caps under the Framework Agreement exceeds 0.1% but is less than 5%, the Proposed Revision is subject to the reporting and announcement requirements but is exempted from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The agreement and the transactions thereunder are revenue in nature and are conducted in the ordinary and usual course of business of the Group and do not constitute notifiable transactions of the Company under Chapter 14 of the Listing Rules.

Reasons and Benefits of the Revision of Annual Caps

As the cooperation between the Group and the Designated Customer further evolves, image recognition for business scenarios will be more widely applied in the business units of the Designated Customer under the Framework Agreement, and the demand for cooperation between both parties will further increase. At the same time, the cooperation between the Group and the Designated Customer under the Framework Agreement has become an exemplar for the Group in the business area and helped the Group establish a good brand reputation in the industry of the Designated Customer. Moreover, given the historically amiable and stable business relationship between Sinovation Ventures and the Group, it is expected that the Group will continue to work with Sinovation Ventures to provide services to the Designated Customer constantly. In view of the above, the Company revises the original annual caps under the Framework Agreement accordingly to meet the ever-growing business demands from the Designated Customer, ensure stable service provision of the Group and build an excellent brand reputation.

Internal Control Measures

In order to ensure that the terms under the continuing connected transactions are fair and reasonable, or no less favorable than terms available to or from Independent Third Parties, and are carried out under normal commercial terms, the Group has adopted the following internal control procedures:

- (i) the Group has adopted and implemented a management system on connected transactions. Under such system, the Audit Committee under the Board is responsible for conducting reviews on compliance with relevant laws, regulations, our Company's policies and the Listing Rules in respect of the continuing connected transactions. In addition, the Audit Committee under the Board, the Board and various other internal departments of the Company (including but not limited to the finance department and compliance and legal department) are jointly responsible for evaluating the terms of the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps;
- (ii) the Audit Committee under the Board, the Board and various other internal departments of the Company also regularly monitor the fulfillment status and the connected transaction updates on a half-yearly basis. In addition, the management of the Company also regularly reviews the pricing policies of the connected transactions;
- (iii) independent non-executive Directors and auditors of the Group will conduct annual review of the continuing connected transactions and provide annual confirmation to ensure that, in accordance with the Listing Rules, the continuing connected transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the relevant pricing policies, and are fair and reasonable in the interests of the Shareholders as a whole;
- (iv) when considering fees to be provided to the above connected persons by our Group, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and Independent Third Parties for similar transactions, to make sure that the pricing and terms offered by the above connected persons from mutual commercial negotiations (as the case may be), are fair, reasonable and are no less favorable than those offered to Independent Third Parties; and
- (v) when considering any renewal or revisions to the connected transactions after Listing, the interested Directors and Shareholders shall abstain from voting on the resolutions to approve such transactions at Board meetings or Shareholders' general meetings (as the case may be), and our independent non-executive Directors and independent Shareholders have the right to consider if the terms of the non-exempt continuing connected transactions (including the proposed annual caps) are fair and reasonable, and on normal commercial terms and in the interests of our Company and our Shareholders as a whole. If the

independent non-executive Directors' or independent Shareholders' approvals cannot be obtained, the Group will not continue the transactions under the Framework Agreement to the extent that they constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules.

Confirmation from the Directors

Having considered the pricing basis, the basis for determining the revised annual caps, the reasons and benefits of revising the annual caps under the Framework Agreement and the internal control measures as described above, the Directors (including the independent non-executive Directors) are of the view that the terms and the proposed revised annual caps of the Framework Agreement are carried out in the ordinary course of business of our Company and on normal commercial terms that are fair and reasonable and in the interests of our Group and the Shareholders as a whole.

As Dr. Kai-Fu Lee is the chairman of Sinovation Ventures and Mr. Wang Hua directly holds approximately 25.31% equity interests in Sinovation Ventures, they are deemed to have material interests in the Proposed Revision, and have abstained from voting on the resolutions in respect of the Proposed Revision at the Board meeting. Save as disclosed above, none of the other Directors has any material interests in the Proposed Revision and none of them was required to abstain from voting on the relevant Board resolutions.

General Information

The Company is a company established under the laws of the PRC on 6 February 2018 with limited liability, which focuses on developing and delivering AI-based products and solutions for the manufacturing and financial services industries in China.

Sinovation Ventures is a company incorporated under the laws of the PRC on 2 November 2010, holding 27.61% of the interests in the Company and being a member of the Single Largest Shareholders Group of the Group. It strives to provide outstanding entrepreneurs with comprehensive venture services. With venture service platform as the core and by leveraging the advantages of its core resources, it also develops diversified service systems with an aim to establish a self-circulating venture ecosystem that creates values on a continuous basis.

The Designated Customer is a company incorporated under the laws of the PRC on 4 June 1993. It is principally engaged in the processing, manufacturing and sales of various dairy products and healthy beverages. It owns several major product series, comprising liquid milk, milk beverages, milk powder, yogurt, chilled beverages, cheese, milk fat and packaged drinking water.

III. DEFINITION

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Board” or “Board of Directors”	the Board of Directors of our Company
“Company”, “our Company” or “the Company”	Qingdao AInnovation Technology Group Co., Ltd (青島創新奇智科技集團股份有限公司), which was established with limited liabilities under the laws of the PRC on 6 February 2018 and converted into a joint stock limited company on 19 May 2021, and its H Shares are listed on the Stock Exchange (stock code: 2121)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Designated Customer”	Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a company incorporated under the laws of the PRC on 4 June 1993, and its shares are listed on the Shanghai Stock Exchange (Stock Code: 600887)
“Director(s)”	director(s) of our Company
“Framework Agreement”	the image detection technology service framework agreement entered into by the Company and Sinovation Ventures on 2 January 2022, details of which are set out in the Prospectus
“Group”, “our Group” or “the Group”	the Company together with its subsidiaries
“H Share(s)”	overseas-listed shares in the share capital of our Company with a nominal value of RMB1.00 each, which are traded in Hong Kong dollars and are listed and traded on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	has the meaning ascribed thereto under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented, or otherwise modified from time to time
“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

“Proposed Revision”	the proposed revision of annual caps under the Framework Agreement for the three years ending 31 December 2024
“Prospectus”	the prospectus of the Company dated 17 January 2022
“RMB”	the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the Shares
“Single Largest Shareholders Group”	a group of entities and individuals collectively holding approximately 27.61% of the interests in the share capital of the Company, namely Sinovation Ventures, Beijing Sinovation Ventures Yucheng Management Consulting Co., Ltd., Mr. Wang Hua, Ms. Tao Ning, Ms. Lang Chunhui and Mr. Zhang Ying
“Sinovation Ventures”	Sinovation Ventures (Beijing) Enterprise Management Limited (創新工場(北京)企業管理股份有限公司), a company incorporated under the laws of the PRC on 2 November 2010, which is a member of the Single Largest Shareholders Group of the Group and is collectively controlled by Mr. Wang Hua, Ms. Tao Ning, Ms. Lang Chunhui and Mr. Zhang Ying through the concert party agreement among themselves
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the Board
QINGDAO AINNOVATION TECHNOLOGY GROUP CO., LTD
 青島創新奇智科技集團股份有限公司
Xu Hui
Executive Director and Chief Executive Officer

Hong Kong, 31 August 2022

As at the date of this announcement, the Board of the Company comprises Mr. Xu Hui as executive Director, Dr. Kai-Fu Lee and Mr. Wang Hua as non-executive Directors, Mr. Xie Deren, Ms. Ko Wing Yan Samantha and Ms. Jin Keyu as independent non-executive Directors.

* *For identification purposes only*