

CONNECTED TRANSACTIONS

CONNECTED PERSONS

The table below sets forth parties who will become, or we have agreed to treat as, our connected persons upon [REDACTED] and the nature of their connection with our Company:

Name	Connected relationship
The Xiaomi Finance Group	We have agreed to treat members of the Xiaomi Finance Group as connected subsidiaries (as defined in Rule 14A.16 of the Listing Rules)
Lei Jun	Lei Jun, executive Director, Founder, Chairman, Chief Executive Officer, Controlling Shareholder and substantial shareholder of our Company
SmartMi International Ltd (“SmartMi” together with its subsidiaries from time to time, the “SmartMi Group”)	An associate of Koh Tuck Lye (as defined in Rule 14A.12A(1)(c) of the Listing Rules), our non-executive Director

We have entered into certain transactions that will constitute our continuing connected transactions after the [REDACTED] with the connected persons above.

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

			Proposed annual cap for the years ending December 31,		
Transaction	Applicable Listing Rule	Waiver	2018	2019	2020
A Fully-exempt continuing connected transactions					
1. Data sharing and collaboration between the XM Group and the Xiaomi Finance Group	Rule 14A.76(1)	N/A	N/A	N/A	N/A
2. Intellectual property licensing by the XM Group to the Xiaomi Finance Group	Rule 14A.76(1)	N/A	N/A	N/A	N/A
3. Provision of marketing services by the Xiaomi Finance Group to the XM Group	Rule 14A.76(1)	N/A	N/A	N/A	N/A
4. Provision of comprehensive support services by the Xiaomi Finance Group to the XM Group	Rule 14A.76(1)	N/A	N/A	N/A	N/A
5. Provision of financial services by the Xiaomi Finance Group to the XM Group	Rule 14A.90	N/A	N/A	N/A	N/A
B Partially-exempt continuing connected transactions					
1. Provision of marketing services by the XM Group to the Xiaomi Finance Group	Rule 14A.35 Rule 14A.76(2) Rule 14A.105	Announcement requirement	RMB339 million	RMB543 million	RMB828 million
2. Provision of payment and settlement services by the Xiaomi Finance Group to the XM Group	Rule 14A.35 Rule 14A.76(2) Rule 14A.105	Announcement requirement	RMB170 million	RMB250 million	RMB390 million

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	Transaction	Applicable Listing Rule	Waiver	Proposed annual cap for the years ending December 31,		
				2018	2019	2020
3.	Supply of products by the XM Group to the Xiaomi Finance Group	Rule 14A.35 Rule 14A.76(2) Rule 14A.105	Announcement requirement	RMB173 million	RMB621 million	RMB1,087 million
4.	Provision of comprehensive support services by the XM Group to the Xiaomi Finance Group	Rule 14A.76(1)	Announcement requirement	RMB133 million	RMB173 million	RMB213 million
C Non-exempt continuing connected transactions						
1.	Provision of financial services by the XM Group to the Xiaomi Finance Group (excluding the XMF Restructuring Loans)	Rule 14A.35 Rule 14A.53 Rule 14A.105	Announcement and independent shareholders’ approval	RMB12,770 million	RMB14,950 million	RMB14,550 million
2.	Collaboration between our Group and the SmartMi Group	Rule 14A.35 Rule 14A.36 Rule 14A.53 Rule 14A.105	Announcement requirement and independent shareholders’ approval	RMB3,800 million	RMB6,500 million	RMB10,400 million
3.	Contractual Arrangements	Rule 14A.35 Rule 14A.36 Rule 14A.52 Rule 14A.53 Rule 14A.105	Announcement and independent shareholders’ approval, annual cap, term of agreements limited to three years	N/A	N/A	N/A

1. The XMF Framework Agreement

(a) Background

Prior to the [REDACTED], there were intra-group transactions among members of the XM Group and the Xiaomi Finance Group. One of the conditions to the waiver [granted] by the Stock Exchange in relation to the XMF Share Option Schemes is that we will treat each member of the Xiaomi Finance Group as a “connected subsidiary” (as defined in Rule 14A.16 of the Listing Rules) of our Company after the [REDACTED] and will comply with the relevant connected transactions requirements under Chapter 14A of the Listing Rules (save for the one-off XMF Restructuring Loans that arose in connection with the XMF Restructuring) for as long as we account for Xiaomi Finance as a subsidiary (see “Waivers from Compliance with the Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—XMF Share Option Scheme II”). Therefore, following the [REDACTED], our intra-group transactions involving members of the XM Group, on one hand, and members of the Xiaomi Finance Group, on the other hand, will constitute our connected transactions under the Listing Rules. Details of these transactions as well as the waivers [granted] by the Stock Exchange from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules are set out below.

On [●] 2018, our Company (for itself and on behalf of the XM Group) and Xiaomi Finance (for itself and on behalf of the Xiaomi Finance Group) entered into the XMF Framework Agreement, pursuant to which the XM Group and the Xiaomi Finance Group shall provide to each other or by one to the other, (i) supply of products; (ii) data sharing and collaboration; (iii) intellectual property licensing; (iv) payment and settlement services; (v) marketing services; (vi) comprehensive support services; and (vii) financial services.

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The above continuing connected transactions will be for a term of three years from January 1, 2018 to December 31, 2020 (both days inclusive).

Any member of the XM Group and the relevant member of the Xiaomi Finance Group may enter into specific agreements in respect of any of the transactions above with a view to setting out the detailed terms, provided that such terms comply with the requirements of the Listing Rules and the XMF Framework Agreement.

Notwithstanding that members of the Xiaomi Finance Group are treated as our “connected subsidiaries” as a condition to the waiver [granted] by the Stock Exchange with respect to the XMF Share Option Scheme II, the XMF Group forms part of our Group and it is commercially reasonable for us to maximize intra-group synergies to facilitate the achievement of the various business objectives of our Group through the XMF Framework Agreement. Such arrangements have significant strategic advantages to our Group as a whole, particularly in terms of resources optimization and allocation, and the efficiency of intra-group coordination may also achieve considerable cost-savings to our Group as a whole. On the basis of the foregoing, our Directors are of the view that it is in the best interests of the Company and our Shareholders as a whole to continue with such transactions after the [REDACTED].

(b) Details of the transactions contemplated under the XMF Framework Agreement

(1) Supply of products

The XM Group shall from time to time supply its products, including smartphones and other consumer electronic products, to the Xiaomi Finance Group. The purchase price for these products shall be determined based on their respective market price and agreed between the parties on a fair and reasonable basis.

For the three years ended December 31, 2015, 2016 and 2017, the total purchase price paid by the Xiaomi Finance Group to the XM Group was approximately RMB0.4 million, RMB0.2 million and RMB3.3 million, respectively.

As the highest relevant percentage ratio in respect of the supply of products from the XM Group to the Xiaomi Finance Group is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms pursuant to Rule 14A.76(2)(a) of the Listing Rules this transaction will be a partially exempt continuing connected transaction, exempt from the independent shareholders’ approval requirements but will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum amount of purchases by the Xiaomi Finance Group from the XM Group under this transaction of RMB173 million, RMB621 million and RMB1,087 million for the three years ending December 31, 2018, 2019 and 2020, respectively. The annual caps have been determined primarily based on the volume of products expected to be purchased by the Xiaomi Finance Group from the XM Group, which is expected to increase significantly on account of the anticipated launch of the product leasing business by the Xiaomi Finance Group and the future growth of such business. Such business of the Xiaomi Finance Group is expected to involve the Xiaomi Finance Group purchasing products such as smartphones from the XM Group and leasing them to consumer customers. We consider that there is significant consumer demand for such product leasing programs, which will in turn increase the volume of products the XMF Group will purchase from the XM Group.

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(2) Data sharing and collaboration

The XM Group and the Xiaomi Finance Group shall contribute data collected or generated as a result of the use by users of the products or services of the XM Group or the Xiaomi Finance Group, as the case may be (subject to applicable laws and contractual requirements), to a big data platform that is jointly maintained by the XM Group and the Xiaomi Finance Group, and to which the XM Group and the Xiaomi Finance Group will have shared access.

No fees or other compensation are required to be paid by either party to the other party under this data sharing and collaboration arrangement. We have no historical transactions amounts for this transaction for the three years ended December 31, 2015, 2016 and 2017.

As the highest relevant percentage ratio in respect of this transaction is expected to be, on an annual basis, less than 0.1% and it is on normal commercial terms, pursuant to Rule 14A.76(1)(a) of the Listing Rules this transaction will be a fully-exempt continuing connected transaction exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

(3) Intellectual property licensing

The XM Group shall grant the Xiaomi Finance Group a royalty-free license for it to use certain trademarks, logos and domain names in connection with the branding of the products and services of the Xiaomi Finance Group. In addition, the XM Group shall grant the Xiaomi Finance Group a license for it to use certain patents and technologies owned and/or developed by the XM Group in connection with the products and/or services of the Xiaomi Finance Group. In return for the use of certain patents and technologies, the XM Group shall charge the Xiaomi Finance Group a royalty payment to be agreed between the parties on a fair and reasonable basis with reference to the significance of the relevant patents and technologies to the XMF Group and market practice of internet companies and/or other comparable companies generally in licensing similar patents or technologies.

We have no historical transaction amount for this transaction as we had not charged any royalty fees for such intra-group transactions for each of the three years ended December 31, 2015, 2016 and 2017.

As the highest relevant percentage ratio in respect of this transaction is expected to be, on an annual basis, less than 0.1% and it is on normal commercial terms, pursuant to Rule 14A.76(1)(a) of the Listing Rules, this transaction will be a fully-exempt continuing connected transaction exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

(4) Payment and settlement services

The Xiaomi Finance Group shall provide secure and reliable payment and settlement services and other ancillary services to the XM Group through the online and offline payment platforms and other payment services from time to time operated by the Xiaomi Finance Group.

The service charges are agreed between the parties on a fair and reasonable basis with reference to the market rates. Market rates refer to the rates at which the same or

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similar types of services are provided to/by Independent Third Parties under normal commercial terms.

For the three years ended December 31, 2015, 2016 and 2017, the total service fees paid by the XM Group to the Xiaomi Finance Group amounted to approximately RMB40.3 million, RMB43.9 million and RMB49.9 million, respectively.

As the highest relevant percentage ratio in respect of this transaction is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, pursuant to Rule 14A.76(2)(a) of the Listing Rules this transaction will be a partially-exempt continuing connected transaction exempt from the independent shareholders’ approval requirements but will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees payable under this transaction of RMB170 million, RMB250 million and RMB390 million for the three years ending December 31, 2018, 2019 and 2020, respectively. These annual caps have been determined primarily based on historical transaction amounts and the volume of the transactions and payments expected to be facilitated through the platforms and services operated by the Xiaomi Finance Group. In particular, we expect that the continued expansion of the XM Group’s new retail distribution platform will generate the XM Group’s demand for the payment and settlement services of the Xiaomi Finance Group.

(5) Marketing services

The XM Group and the Xiaomi Finance Group shall provide comprehensive marketing services to each other, including online and mobile application marketing services, traffic re-direction, marketplace promotion, cross-marketing, marketing analytics, advertisements and pre-installation of applications on mobile devices.

The service charges are agreed between the parties on a fair and reasonable basis with reference to the market rates. Market rates refer to the rates at which the same or similar types of services are provided to/by Independent Third Parties under normal commercial terms.

Provision of marketing services by the XM Group to the Xiaomi Finance Group

For the three years ended December 31, 2015, 2016 and 2017, the total marketing service fees paid by the Xiaomi Finance Group to the XM Group amounted to approximately RMB9.7 million,

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RMB1.8 million and RMB70.8 million, respectively. As a fast-growing business in a development phase, we expect that the Xiaomi Finance Group’s marketing needs will significantly increase in the future as it seeks to generate and monetize user traffic.

As the highest relevant percentage ratio in respect of the provision of marketing services by the XM Group to the Xiaomi Finance Group is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, pursuant to Rule 14A.76(2)(a) of the Listing Rules this transaction will be a partially exempt continuing connected transaction exempt from the independent shareholders’ approval requirement but will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees receivable under this transaction of RMB339 million, RMB543 million and RMB828 million for the three years ending December 31, 2018, 2019 and 2020, respectively. These annual caps have been determined primarily based on our marketing directives and brand initiatives, the nature and extent of marketing services the XM Group may offer, the expected growth of the Xiaomi Finance Group as a fast-growing business in a development phase and increasing demand for marketing services and the relevant market penetration costs for the products and services of the Xiaomi Finance Group. In particular, with a view to promoting the mobile applications and services of the Xiaomi Finance Group, we expect to pre-install the mobile applications developed by the Xiaomi Finance Group on the smartphones of the XM Group. In return, the Xiaomi Finance Group shall pay certain amount of marketing fees to the XM Group. The annual caps above factor in the expected volume of smartphones that will be pre-installed with the Xiaomi Finance Group’s mobile applications and in turn, the expected marketing fees payable by the Xiaomi Finance Group.

Provision of marketing services by the Xiaomi Finance Group to the XM Group

We have no historical transaction amounts for this transaction. As the user base, service platforms and operations of the Xiaomi Finance Group mature and diversify, we expect that it will generate collaborative marketing opportunities between the XM Group and the Xiaomi Finance Group. Leveraging such opportunities, we expect that the XM Group will be able to market and promote its products and services through the ecosystem and user traffic of the Xiaomi Finance Group going forward.

As the highest relevant percentage ratio in respect of the provision of marketing services by the Xiaomi Finance Group to the XM Group is expected to be, on an annual basis, less than 0.1% and it is on normal commercial terms, pursuant to Rule 14A.76(1)(a) of the Listing Rules this transaction will be a fully-exempt continuing connected transaction exempt from the reporting, announcement and independent shareholders approval requirements under Chapter 14A of the Listing Rules.

(6) Comprehensive support services

The XM Group and Xiaomi Finance Group shall provide comprehensive support services to each other, including data servers and systems, human resources, labor services, administrative services, analytics, office space, office systems and support services, software and systems, legal and accounting services, sales services, market development, technical support services, research and development services, staff trainings and recruitment, management services, procurement function support services, information technology services, software development, product sales and agent services, operation and maintenance services and consultation services.

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The service charges shall generally be determined based on the actual costs (including the corresponding overhead) for the provision of such services, or where appropriate with reference to pricing of comparable services available in the market.

Provision of comprehensive support services by the XM Group to the Xiaomi Finance Group

We did not charge a substantial portion of the intra-group support services shared between the XM Group and the Xiaomi Finance Group in the past as they are operated as a single economic unit. For the three years ended December 31, 2015, 2016 and 2017, the total service fees paid by the Xiaomi Finance Group to the XM Group amounted to approximately nil, RMB28.2 million and RMB12.8 million, respectively.

As the highest relevant percentage ratio in respect of the provision of support services by the XM Group to the Xiaomi Finance Group is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, pursuant to Rule 14A.76(2)(a) of the Listing Rules this transaction will be a partially-exempt continuing connected transaction exempt from the independent shareholders’ approval requirement but will subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees payable by the Xiaomi Finance Group to the XM Group under this transaction of RMB133 million, RMB173 million and RMB213 million for the three years ending December 31, 2018, 2019 and 2020, respectively. These annual caps have been determined primarily based on the operation level of the Xiaomi Finance Group relative to our Group as a whole with reference to the number of staff, and the expected increase in the major cost components of our Group, including labour costs, data server maintenance and operating costs, back office costs, rental and other property related expenses and other overhead.

Provision of comprehensive support services by the Xiaomi Finance Group to the XM Group

We did not charge a substantial portion of the intra-group support services shared between the XM Group and the Xiaomi Finance Group in the past as they are operated as a single economic unit. For the three years ended December 31, 2015, 2016 and 2017, the total service fees paid by the XM Group to the Xiaomi Finance Group amounted to approximately nil, RMB9.2 million and RMB32.6 million, respectively.

As the highest relevant percentage ratio in respect of the provision of support services by the Xiaomi Finance Group to the XM Group is expected to be, on an annual basis, less than 0.1% and it is on normal commercial terms, pursuant to Rule 14A.76(1)(a) of the Listing Rules, this transaction will be a fully-exempt continuing connected transaction, exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

(7) Financial services

The XM Group and the Xiaomi Finance Group shall provide financial services to each other, including lending and other credit and guarantee services and other financial services that may include settlement services, acceptance of bills, entrusted loans, trust loans, credit verification, asset backed securitization and financing, financial and financing consultation, consultation and insurance.

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With respect to the lending and other credit services, the lending interest rate will be determined with reference to the interest rate standard promulgated by the People’s Bank of China and agreed between the parties on a fair and reasonable basis. With respect to the other financial services, the fees to be charged will comply with the relevant prescribed rates for such services as determined by the People’s Bank of China or the China Banking Regulatory Commission. Where no relevant prescribed rate is applicable, the fee will be determined with reference to market rates of similar financial services and agreed between the parties on a fair and reasonable basis.

In connection with the XMF Restructuring, the XM Group advanced unsecured and interest-free XMF Restructuring Loans amounting to US\$830 million and RMB299 million, respectively, as of the Latest Practicable Date on a one-off basis to the Xiaomi Finance Group. The XMF Restructuring Loans, which were made on the basis that Xiaomi Finance was at the time, and as of the Latest Practicable Date remains, a wholly-owned subsidiary of our Company, are not be subject to the XMF Framework Agreement.

Provision of financial services by the XM Group to the Xiaomi Finance Group

As at December 31, 2015, 2016 and 2017, the amount outstanding advanced or guaranteed by the Xiaomi Finance Group to/in favor of the XM Group was RMB2.9 million, RMB610.0 million and RMB5,625.0 million, respectively.

As the highest relevant percentage ratio in respect of the provision of financial services by the XM Group to the Xiaomi Finance Group is expected to be, on an annual basis, more than 5%, this transaction will be a non-exempt continuing connected transaction subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps (excluding the one-off XMF Restructuring Loans advanced by the XM Group to the Xiaomi Finance Group that arose in connection with the XMF Restructuring) for the maximum amount of financial services to be provided by the XM Group to the Xiaomi Finance Group under this transaction (inclusive of interest and fees received and anticipated to be received) of RMB12,770 million, RMB14,950 million and RMB14,550 million for the three years ending December 31, 2018, 2019 and 2020, respectively. Such maximum amount is applicable on a daily basis during the relevant year, and such maximum daily amount is calculated on an individual basis as outstanding at the end of each day during the relevant year without aggregating with the daily amount incurred on the days before.

The annual caps have been determined primarily based on the maximum amount of exposure at any time which the XM Group is prepared to undertake in the context of its estimated temporary surplus cash resources, our intra-group liquidity as well as the historical transaction amounts. The Xiaomi Finance Group is expected to engage in capital intensive business in the financial technology industry. As the Xiaomi Finance Group is still in a development phase, it would in the near future require substantial amount of intra-group funding from the XM Group to meet its capital requirements. In addition, going forward, we expect that the Xiaomi Finance Group will expand its product offerings (including supply chain financing business offering factoring services to suppliers) that will give rise to substantial capital requirements. We expect that there is significant demand for the factoring services expected to be offered by the Xiaomi Finance Group, and favourable government policies will be conducive to the substantial growth of such business, which will in turn increase the capital

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requirements of the Xiaomi Finance Group. As the operations of the Xiaomi Finance Group mature, we expect that its reliance on the XM Group for financing will gradually decrease.

Provision of financial services by the Xiaomi Finance Group to the XM Group

As at December 31, 2015, 2016 and 2017, the amount outstanding advanced or guaranteed by the XM Group to/in favor of the Xiaomi Finance Group was nil, RMB1,003.1 million and RMB950.6 million, respectively.

We expect that the financial services to be provided by the Xiaomi Finance Group to the XM Group will be primarily financial assistance within the meaning of Rule 14A.23(4) of the Listing Rules and will be unsecured and conducted on normal commercial terms (or better to the XM Group). Therefore, such transactions will be fully-exempt continuing connected transactions exempt from the reporting, announcement and independent shareholders’ approval requirements pursuant to Rule 14A.90 of the Listing Rules.

2. The SmartMi Framework Agreement

SmartMi is our major ecosystem partner that supplies our Group with smart air purifiers, air quality monitors and other smart hardware products. Through our collaboration with such ecosystem partner, we are able to launch a successful suite of air purifiers and related IoT devices that form an important component of our ecosystem. In particular, we were number one in terms of air purifier unit shipments globally in 2017, according to iResearch. On the basis of the foregoing, our Directors are of the view that it is in the best interests of our Company and our Shareholders as a whole to continue and strengthen such collaboration after the [REDACTED].

On [●], 2018, our Company (for itself and on behalf of our Group) and SmartMi (for itself and on behalf of the SmartMi Group) entered into the SmartMi Framework Agreement, pursuant to which our Group shall purchase, and SmartMi Group shall supply, smart hardware products such as air purifiers and humidifiers. Our Group shall sell such products through its platforms and pay a certain amount of profit derived from such sale to the SmartMi Group (the “**Shared Profit**”).

The above continuing connected transaction will be for a term of three years from January 1, 2018 to December 31, 2020 (both days inclusive).

Any member of our Group and any member of the SmartMi Group may enter into specific agreements in respect of the transactions contemplated under the SmartMi Framework Agreement with a view to setting out the detailed terms, provided that such terms comply with the requirements of the Listing Rules and the SmartMi Framework Agreement. The terms of the collaboration shall be determined on a fair and reasonable basis and shall be no less favorable to the XM Group than those offered to Independent Third Parties. In particular, the price for these products shall be determined on a cost-plus basis with generally not more than 2% margin and the amount of Shared Profit shall be determined with reference to the terms of collaboration between our Group with other ecosystem partners.

For the three years ended December 31, 2015, 2016 and 2017, the total amount of purchase price and Shared Profit paid by our Group to the SmartMi Group was approximately RMB481.9 million, RMB1,027.4 million and RMB1,931.0 million, respectively.

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As the highest percentage ratio in respect of the collaboration between our Group and the SmartMi Group is expected to be, on an annual basis, more than 5%, this transaction will be a non-exempt continuing connected transaction subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate consideration (including purchase price and the Shared Profit) payable under this transaction of RMB3,800 million, RMB6,500 million and RMB10,400 million for the three years ending December 31, 2018, 2019 and 2020, respectively. These annual caps have been determined primarily based on (i) historical transaction amounts, (ii) the continuing demand for our suite of air purifiers and related products in various markets, (iii) reasonable increase in the unit price, (iv) buffer for unexpected increase in the demand for, or the selling price of, the relevant products and (v) our anticipation that the SmartMi Group will develop other smart hardware products that may be integrated into our ecosystem.

3. Contractual Arrangements

(a) Background

As disclosed in the section headed “Contractual Arrangements,” due to regulatory restrictions on foreign ownership in the PRC, we conduct a portion of our business through our Consolidated Affiliated Entities in mainland China.

We do not hold any equity interests in our Consolidated Affiliated Entities. Rather, through the Contractual Arrangements, we effectively control these Consolidated Affiliated Entities and are able to derive substantially all of their economic benefits, and expect to continue to do so. The Contractual Arrangements among us, the WFOEs, our Consolidated Affiliated Entities and shareholders of our Consolidated Affiliated Entities enable us to (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by the WFOEs; (ii) exercise effective control over our Consolidated Affiliated Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in our Consolidated Affiliated Entities when and to the extent permitted by PRC laws.

See the section headed “Contractual Arrangements” for details of the agreements comprising the Contractual Arrangements.

(b) Listing Rule implications

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person,” the Consolidated Affiliated Entities will be treated as our Company’s wholly-owned subsidiary, and its directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as our Company’s “connected persons.”

The transactions contemplated under the Contractual Arrangements are continuing connected transactions of our Company. The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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(c) *Waiver application*

(i) Reasons for the waiver application

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operations, that such transactions have been and will be entered into in our ordinary and usual course of business, are on normal commercial terms or better and the terms are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Our Directors also believe that our structure, whereby the financial results of the consolidated affiliated entities are consolidated into our financial statements as if they were our Company’s wholly-owned subsidiaries, and all the economic benefits of their business flows to our Group, places our Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, for all the transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of independent Shareholders.

In addition, given the Contractual Arrangements were entered into prior to the [REDACTED] and are disclosed in this [REDACTED], and potential investors of our Company will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement and the independent Shareholders’ approval requirements in respect thereof immediately after [REDACTED] would add unnecessary administrative costs to our Company.

To ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, the management of our Group plans to take the following measures:

- as part of the internal control measures, major issues arising from implementation and performance of the Contractual Arrangements will be reviewed by our Board on a regular basis which will be no less frequent than on a quarterly basis. Our Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements;
- matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by our Board on a regular basis which will be no less frequent than on a quarterly basis;
- the relevant business units and operation divisions of our Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters; and
- our Company shall comply with the conditions prescribed under the waiver granted by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements.

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(ii) Conditions of the waiver application

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with (i) the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are [REDACTED] on the Stock Exchange subject however to the following conditions.

No change without independent non-executive Directors’ approval

Save as described below, no change to the Contractual Arrangements (including with respect to any fees payable to WFOEs thereunder) will be made without the approval of our independent non-executive Directors.

No change without independent Shareholders’ approval.

Save as described below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company will however continue to be applicable.

Economic benefits and flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group’s options (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the Consolidated Affiliated Entities for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOEs by the Consolidated Affiliated Entities under the Contractual Arrangements, and (iii) our Group’s right to control the management and operation of, as well as, in substance, all of the voting rights of the Consolidated Affiliated Entities.

Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced without obtaining the approval of our Shareholders: (i) upon the expiry of the existing arrangements, (ii) in connection with any changes to the Registered Shareholders or directors of the Consolidated Affiliated Entities, or (iii) in relation to any existing, newly established or acquired wholly foreign-owned enterprise or operating company (including branch company),

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engaging in a business similar or relating to those of our Group. Such renewal and/or reproduction is justified by business expediency. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Group and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

Any renewed or reproduced framework will be on substantially the same terms and conditions as the existing Contractual Arrangements.

Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an on-going basis:

- the Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual report and accounts in accordance with the relevant provisions of the Listing Rules;
- our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company’s annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities during the relevant financial period above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Shareholders as a whole;
- our Company’s auditors will carry out review procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person,” our Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and its associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under

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the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and

- our Consolidated Affiliated Entities will undertake that, for so long as the Shares are [REDACTED] on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditors full access to its relevant records for the purpose of our Company’s auditor’s review of the connected transactions.

WAIVERS

We have applied for, and the Stock Exchange has [granted] us, waivers from strict compliance with the announcement requirements under the Listing Rules in respect of the partially-exempt continuing connected transactions mentioned above.

We have applied for, and the Stock Exchange has [granted] us in respect of the non-exempt continuing connected transactions contemplated under the XMF Framework Agreement and the SmartMi Framework Agreement, a waiver from strict compliance with the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

We have applied for, and the Stock Exchange has [granted] us, in respect of the Contractual Arrangements, (i) a waiver from strict compliance with announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules (ii) a waiver from strict compliance with the requirement to set a term of not exceeding three years under Rule 14A.52 of the Listing Rules; and (iii) waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Listing Rules.

CONFIRMATION FROM THE DIRECTORS

Our Directors (including independent non-executive Directors) believe that the continuing connected transactions set out above have been entered into in our ordinary and usual course of business on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the proposed annual caps (if any) in respect of continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operations, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better and the terms are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

[Based on the documentation and data provided by us and participation in the due diligence and discussions with us, the Joint Sponsors are of the view that (i) the partially-exempt and non-exempt continuing connected transactions set out above have been and will be entered into during our ordinary and usual course of business on normal commercial terms, and are fair and reasonable and in the interest of our Company and our Shareholders as a whole; and (ii) the proposed annual caps (where applicable) of such partially-exempt and non-exempt continuing connected transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.]