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MIDEA REAL ESTATE HOLDING LIMITED

美的置業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3990)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

BACKGROUND

Reference is made to the prospectus of the Company dated 28 September 2018 in respect of the Existing Smart Home Technology Products Framework Purchase Agreement entered into between the Company and Midea to govern the terms and conditions of the transactions between our Group and Midea Group in connection with the provision of the Smart Home Technology Products. Pursuant to the Existing Smart Home Technology Products Framework Purchase Agreement, Midea agreed to provide the Smart Home 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.

Given that the Existing Smart Home Technology Products Framework Purchase Agreement will expire on 31 December 2020, the Company had on 28 December 2020 entered into the 2021 Smart Home Technology Products Framework Purchase Agreement with Midea for the revision, setting of new annual caps and extension of the term of the Existing Smart Home Technology Products Framework Purchase Agreement for a term of three years commencing from 1 January 2021 to 31 December 2023 (both days inclusive).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. He and Ms. Lu are the controlling shareholders of the Company and Midea. Each of Midea and its subsidiaries is an associate of Mr. He and Ms. Lu and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2021 Smart Home Technology Products Framework Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios (other than the profits ratio as defined under the Listing Rules) exceed 0.1% but are less than 5%, the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

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2021 Smart Home Technology Products Framework Purchase Agreement

Date:	28 December 2020
Parties:	The Company (as the purchaser of Smart Home Technology Products); and Midea (as the supplier of Smart Home Technology Products)
Nature of transactions:	Provision of the Smart Home Technology Products by Midea Group to the Group.
Term:	The 2021 Smart Home Technology Products Framework Purchase Agreement shall substitute and replace the Existing Smart Home Technology Products Framework Purchase Agreement for a fixed term commencing on 1 January 2021 and ending on 31 December 2023 (both days inclusive), renewable by mutual agreement of the parties, subject to compliance with all relevant requirements under the Listing Rules and applicable laws and regulations.
Payment terms:	The payment terms for the Smart Home Technology Products will be stipulated in the separate agreements governing each particular transaction entered into pursuant to the 2021 Smart Home Technology Products Framework Purchase Agreement. In general, the Continuing Connected Transactions will normally be settled in the form of bank transfer or such other manner and subject to credit terms as agreed by the parties.
Pricing policy:	The pricing of the Smart Home Technology Products is to be determined by the Company and Midea on normal commercial terms, negotiated on an arm's length basis, subject to applicable laws and regulations, and with reference to the prevailing market conditions and the principle of fairness.

In principle, the purchase prices will be determined based on the quotations provided by other qualified supplier(s) for similar goods of similar quality with comparable order quantities 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.

To ensure Midea is providing Smart Home Technology Products at the prevailing market prices and terms, the Group has implemented the following review procedures and approval process against the assessment criteria:

- (i) for products and/or services which are commonly available in the market, we will obtain fee quotes 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; and
- (ii) for products and/or services which are uncommon in the market, our sourcing department will assess bi-annually whether there are potential suppliers for such products and/or services and obtain fee quotes based on our needs and the criteria set out by our relevant department, and obtain fee quotes to the extent available where there are fewer than three suppliers and where 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 where available).

Existing annual caps and historical transaction amounts:

The table below sets out the existing annual caps in respect of the provision of the Smart Home Technology Products as contemplated under the Existing Smart Home Technology Products Framework Purchase Agreement and the historical transaction amounts for the three years ending 31 December 2020:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000	For the year ending 31 December 2020 RMB'000
Existing annual caps	12,000	145,000	471,000
Historical transaction amounts	11,921	106,711	166,445 ^(Note)

Note: This is the historical transaction amount for the eleven months ended 30 November 2020, which does not exceed the existing annual cap for 2020. The transaction amount in 2020 was lower than expected mainly because the progress of certain development projects with fine interior decorations was delayed due to the outbreak of COVID-19.

Annual caps: The table below sets out the annual caps in respect of the provision of the Smart Home Technology Products as contemplated under the 2021 Smart Home Technology Products Framework Purchase Agreement for the three years ending 31 December 2023:

	For the year ending 31 December 2021 RMB'000	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000
Annual caps	471,000	576,430	720,530

The aforesaid annual caps have been determined by the Directors mainly by reference to:

- (i) the historical transaction amounts between the Group and Midea Group for purchase of Smart Home Technology Products;
- (ii) the number of development projects of the Group with fine interior decorations on hand for 2021 and reasonable business projections for the next few years based on the currently available sales data, in part based on the increase in sales of residential property projects year by year, and in particular, how the impact of the outbreak of COVID-19 has been largely absorbed and the market demand for Smart Home Technology Products is expected to rebound and increase from 2021 onwards;
- (iii) the progress of certain development projects of the Group with fine interior decorations being delayed in 2020, and as such, the corresponding demand for Smart Home Technology Products previously expected for 2020 will be postponed to the coming years;
- (iv) the continuing growth in market demand for Smart Home Technology Products is expected to drive a significant uptick in the overall product volume; and
- (v) a provision of 10% as a buffer to cater for potential increase in the unit prices of the Smart Home Technology Products and number of properties to be delivered for the three years ending 31 December 2023.

Save for the annual caps, the other key terms of the 2021 Smart Home Technology Products Framework Purchase Agreement are substantially the same as those of the Existing Smart Home Technology Products Framework Purchase Agreement.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions are conducted because of the business and operational needs of the Group. The Directors are of the view that the Group would benefit from entering into the 2021 Smart Home Technology Products Framework Purchase Agreement for a number of reasons.

We have engaged Midea Group, a leader of home appliances industry in the PRC for the provision of the Smart Home Technology Products primarily because (i) the production capacity of Midea Group allows it to quickly meet our potential increase in demand if we expand our operations and require additional products; (ii) Midea Group is reputable and has a certain degree of brand influence in the relevant industry, and Midea Group displays obvious advantages in PRC's consumer appliances market, including product quality, service quality, and a complete range of products; (iii) we have established a long-term and stable cooperative relationship with Midea Group during the course of which we are able to leverage a shared product technology platform and create standards for product specifications, which facilitates our promotion of product application and maintenance significantly, thereby increasing our service and market share; and (iv) we consider that the prices and terms of services offered by Midea Group are in line with market and on normal commercial terms or better.

In addition, the entering into of the 2021 Smart Home Technology Products Framework Purchase Agreement does not preclude our Group from using other qualified supplier(s). We still have the discretion in selecting other qualified supplier(s) as we think fit and appropriate for the benefits of our Group.

Taking into account the commercial benefits to the Group, the Directors (including the independent non-executive Directors) believe that the transactions (including the annual caps) contemplated under the 2021 Smart Home Technology Products Framework Purchase Agreement have been entered into in the ordinary and usual course of business and on normal commercial terms that are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Mr. He Jianfeng, a non-executive Director, is the spouse of Ms. Lu. Therefore, Mr. He Jianfeng is deemed to be interested in Ms. Lu's interest in the Company by virtue of the SFO. He was regarded as having a material interest in the transactions contemplated under the 2021 Smart Home Technology Products Framework Purchase Agreement and had abstained from voting in respect of the relevant Board resolutions for considering and approving the 2021 Smart Home Technology Products Framework Purchase Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the 2021 Smart Home Technology Products Framework Purchase Agreement.

INTERNAL CONTROL MEASURES

The following internal control measures have been implemented in order to ensure that the Continuing Connected Transactions are conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders as a whole:

- (1) The Group has established a series of measures to ensure that the Continuing Connected Transactions will be conducted in accordance with the principal terms of the 2021 Smart Home Technology Products Framework Purchase Agreement, such as the sourcing department obtaining quotations from a minimum of three potential suppliers (including at least two independent third parties) based on the Group's requirements and specifications for commonly available products and/or services prior to placing an order; and the implementation of the separate agreements governing each particular transaction must be approved by, depending on size of the transaction, the business department, the sourcing department, the legal department, the finance department and/or the management to ensure that it is in accordance with the pricing policy.

- (2) The sourcing department will also maintain a list of carefully selected suppliers that is regularly reviewed and updated, including identifying potential suppliers for products and/or services which are uncommon in the market. Selection criteria of the suppliers will be based on their delivery times, payment terms, specifications, product quality, and overall performance in the past.
- (3) In addition, the finance department will keep proper documentation of the agreements governing each particular transaction entered into between the Group and Midea Group pursuant to the 2021 Smart Home Technology Products Framework Purchase Agreement and the compliance department will report to the audit committee on a quarterly basis whether the internal control measures in respect of the Continuing Connected Transactions remain complete and effective.
- (4) The finance department and compliance department shall be jointly responsible for monitoring the transaction amounts of the Continuing Connected Transactions on a monthly basis to ensure it does not exceed the annual caps.
- (5) The independent non-executive Directors have reviewed and will continue to review the Continuing Connected Transactions, at least annually, to ensure that such transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms of the 2021 Smart Home Technology Products Framework Purchase Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.
- (6) The auditor of the Company will conduct an annual review on the Continuing Connected Transactions, including the annual caps and their actual utilisation.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. He and Ms. Lu are the controlling shareholders of the Company and Midea. Each of Midea and its subsidiaries is an associate of Mr. He and Ms. Lu and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2021 Smart Home Technology Products Framework Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios (other than the profits ratio as defined under the Listing Rules) exceed 0.1% but are less than 5%, the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

The Company is an investment holding company. The Group is a large national property developer based in the PRC and operates three principal business segments: (i) property development and sales; (ii) property management services; and (iii) investment and operation of commercial properties.

Midea is a global technologies group based in the PRC principally engaged in the manufacturing, marketing and installation of heating, ventilation and air-conditioning systems. It is also involved in the production of consumer appliances and various small home appliances; robotics and industrial automation systems; and other digital businesses.

DEFINITIONS

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

“2021 Smart Home Technology Products Framework Purchase Agreement”	an agreement dated 28 December 2020 entered into between the Company and Midea in relation to the provision of the Smart Home Technology Products by Midea Group to the Group for a fixed term commencing on 1 January 2021 and ending on 31 December 2023 (both days inclusive)
“Board”	the board of Directors
“Company”	Midea Real Estate Holding Limited (美的置業控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange (stock code: 3990)
“Continuing Connected Transactions”	the provision of the Smart Home Technology Products by Midea Group to the Group as contemplated under the Existing Smart Home Technology Products Framework Purchase Agreement and the 2021 Smart Home Technology Products Framework Purchase Agreement
“Director(s)”	the director(s) of the Company
“Existing Smart Home Technology Products Framework Purchase Agreement”	an agreement dated 12 September 2018 entered into between the Company and Midea in relation to the provision of the Smart Home Technology Products by Midea Group to the Group with effect from 11 October 2018, the date of listing of the Company and will be valid until 31 December 2020, renewable by mutual agreement of the parties, subject to compliance with all relevant requirements under the Listing Rules and applicable laws and regulations
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Midea”	美的集團股份有限公司 (Midea Group Co., Ltd.*), a company incorporated in the PRC with limited liability and the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000333), which was held collectively by 美的控股有限公司 (Midea Holding Co., Ltd.*) and Mr. He who is a party acting-in-concert as to approximately 31.11% as at the date of this announcement. 美的控股有限公司 (Midea Holding Co., Ltd.*), a company incorporated in the PRC with limited liability, which was held by Mr. He and Ms. Lu, as to approximately 94.55% and 5.45% respectively, as at the date of this announcement.

“Midea Group”	Midea and its subsidiaries
“Mr. He”	Mr. He Xiangjian (何享健) and Ms. Lu are parties acting-in-concert. Therefore, Mr. He is deemed to be interested in Ms. Lu’s interest in the Company by virtue of the SFO and is a controlling shareholder of the Company. However, as confirmed by Mr. He and Ms. Lu in the deed of acting-in-concert dated 14 May 2018 entered into between Mr. He and Ms. Lu, Mr. He does not hold any economic interest (including the right to dividend) in the Group.
“Ms. Lu”	<p>Ms. Lu Deyan (盧德燕) is a controlling shareholder of the Company, the spouse of Mr. He Jianfeng (何劍鋒) (a non-executive Director) and a daughter-in-law of Mr. He.</p> <p>Ms. Lu holds the entire equity interest in each of Midea Development Holding (BVI) Limited, Midea Ever Company Limited and Midea Field Company Limited which these companies in turn hold 940,000,000, 30,000,000 and 30,000,000 shares of the Company respectively. Therefore, Ms. Lu is deemed to be interested in the shares of the Company held by Midea Development Holding (BVI) Limited, Midea Ever Company Limited and Midea Field Company Limited, as to approximately 81.26%, collectively, as at the date of this announcement by virtue of the SFO.</p>
“PRC”	People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholders”	holders of the shares of the Company
“Smart Home Technology Products”	products comprising household appliances, including kitchen appliances, water heating machines, water purification equipment, washing machines and air conditioning machines, and smart home products, including smart household appliances (such as kitchen appliances and restroom appliances), security monitoring products and smart entertainment products, as well as other related ancillary products
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

In addition, the terms “associate”, “connected person”, “controlling shareholder”, “percentage ratios” and “subsidiary” shall have the meanings ascribed to them under the Listing Rules.

* The Chinese names of the PRC entities have been translated into English in this announcement for reference only. In the event of any discrepancies between the Chinese names of the PRC entities and their respective English translations, the Chinese version shall prevail.

By order of the Board
Midea Real Estate Holding Limited
Hao Hengle
Chairman, Executive Director and President

Hong Kong, 28 December 2020

As at the date of this announcement, the executive directors of the Company are Mr. Hao Hengle, Mr. Xu Chuanfu, Mr. Yao Wei and Mr. Lin Ge; the non-executive directors of the Company are Mr. He Jianfeng and Mr. Zhao Jun; and the independent non-executive directors of the Company are Mr. Tan Jinsong, Mr. O'Yang Wiley and Mr. Lu Qi.