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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities dealing, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in AUX International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities dealing or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**AUX**

**AUX INTERNATIONAL HOLDINGS LIMITED**

**奧克斯國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2080)**

**CONTINUING CONNECTED TRANSACTIONS:  
REVISION OF ANNUAL CAPS FOR PROVISION OF  
PROPERTY MANAGEMENT SERVICES  
UNDER EXISTING FRAMEWORK AGREEMENT  
AND  
NEW FRAMEWORK AGREEMENTS FOR PROVISION OF  
PROPERTY MANAGEMENT SERVICES  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**

 **中毅資本有限公司**  
Grand Moore Capital Limited

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A notice convening the EGM of AUX International Holdings Limited to be held at Room 1703-1704, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong on Thursday, 27 December 2018 is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. at or before 11:00 a.m. on Tuesday, 25 December 2018 (Hong Kong time)) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy previously submitted shall be deemed to be revoked.

11 December 2018

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## DEFINITIONS

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

“2016 Framework Agreement”	the framework agreement entered into between Ningbo AUX Property as supplier and Ningbo AUX Real Estate (for itself and as trustee for the benefit of its subsidiaries from time to time) as customer on 7 November 2016 for the provision of various types of residential property management services by Ningbo AUX Property to Ningbo AUX Real Estate including the maintenance, cleaning and security services in connection with the residential development projects of Ningbo AUX Real Estate
“2018 Framework Agreements”	collectively, the 2018 Framework Agreement I and the 2018 Framework Agreement II
“2018 Framework Agreement I”	the property management services framework agreement entered into between Ningbo AUX Property as supplier and AUX Group (for itself and as trustee for the benefit of its subsidiaries from time to time) as customer on 15 October 2018 for the provision by Ningbo AUX Property of maintenance and cleaning services for offices, car park units and commercial properties owned by AUX Group and its subsidiaries from time to time for a term commencing on the date of approval by the Independent Shareholders at the EGM and ending on 31 December 2020
“2018 Framework Agreement II”	the property management services framework agreement entered into between Ningbo AUX Property as supplier and Ningbo Sanxing (for itself and as trustee for the benefit of its subsidiaries from time to time) as customer on 15 October 2018 for the provision by Ningbo AUX Property of maintenance and cleaning services for offices and car park units occupied by Ningbo Sanxing and its subsidiaries from to time for a term commencing on the date of approval by the Independent Shareholders at the EGM and ending on 31 December 2020
“2018 Supplemental Agreement ”	the agreement entered into between Ningbo AUX Property and Ningbo AUX Real Estate (for itself and as trustee for the benefit of its subsidiaries from time to time) on 15 October 2018 to amend certain terms of the 2016 Framework Agreement
“Amended 2016 Framework Agreement”	the 2016 Framework Agreement as amended by the 2018 Supplemental Agreement

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## DEFINITIONS

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“Amended 2016 Framework Agreement Annual Caps”	RMB30.0 million, RMB47.7 million and RMB55.6 million, being the maximum amounts which the aggregate amount of fees that may be charged by Ningbo AUX Property for the provision of property management services to Ningbo AUX Real Estate pursuant to the Amended 2016 Framework Agreement is expected not to exceed for the years ending 31 December 2018, 31 December 2019 and 31 December 2020 respectively
“Announcement”	the announcement of the Company dated 7 November 2016
“associate(s)”	has the same meaning to it under the Listing Rules
“AUX Group”	AUX Group Company Limited* (奧克斯集團有限公司), a limited liability company established in the PRC
“Board”	the board of Directors
“Circular”	the circular of the Company dated 28 February 2017
“Company”	AUX International Holdings Limited (奧克斯國際控股有限公司), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for, among others, considering, and if thought fit, approval by the Independent Shareholders of the 2018 Supplemental Agreement and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFA”	Grand Moore Capital Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the 2018 Supplemental Agreement and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps)
“Independent Board Committee”	an independent committee of the Board, comprising all three independent non-executive Directors, established to advise the Independent Shareholders in respect of the 2018 Supplemental Agreement and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps)
“Independent Shareholder(s)”	Shareholders other than Mr. Zheng Jian Jiang, Ze Hui Limited and Huiyi Limited and their respective associates, and all other Shareholders materially interested in the 2018 Supplemental Agreement and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps)
“independent third party(ies)”	person(s) or company(ies) which is/are not connected person(s) of the Company
“Latest Practicable Date”	7 December 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Ningbo AUX Property”	寧波奧克斯物業服務有限公司 (Ningbo AUX Property Management Service Co., Ltd.*), a limited liability company established in the PRC and an indirectly wholly owned subsidiary of the Company
“Ningbo AUX Real Estate”	寧波奧克斯置業有限公司 (Ningbo AUX Real Estate Co., Ltd*), a limited liability company established in the PRC
“Ningbo Sanxing”	寧波三星醫療電氣股份有限公司 (Ningbo Sanxing Medical Electric Co., Ltd.*), a joint stock limited liability company established in the PRC, the issued shares of which are listed on the Shanghai Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of nominal value of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

\* *All English translation of the Chinese names of the Companies established in the PRC is for identification purpose only.*



**AUX INTERNATIONAL HOLDINGS LIMITED**

**奧克斯國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2080)**

*Executive Directors:*

Mr. Zheng Jiang (*Chairman*)

Mr. Chan Hon Ki

Ms. Chen Huajuan

Ms. Shen Guoying

*Registered office:*

Clifton House 75

Fort Street

P.O. Box 1350

Grand Cayman KY1-1108

Cayman Islands

*Independent non-executive Directors:*

Mr. Poon Chiu Kwok

Mr. Bau Siu Fung

Ms. Lou Aidong

*Principal place of business*

*in Hong Kong:*

Room 506B, 5th Floor

Tower 1, Admiralty Centre

18 Harcourt Road

Hong Kong

11 December 2018

*To the Shareholders*

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS:  
REVISION OF ANNUAL CAPS FOR PROVISION OF  
PROPERTY MANAGEMENT SERVICES  
UNDER EXISTING FRAMEWORK AGREEMENT  
AND  
NEW FRAMEWORK AGREEMENTS FOR PROVISION OF  
PROPERTY MANAGEMENT SERVICES  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the Announcement and the Circular. On 7 November 2016, Ningbo AUX Property, an indirect wholly-owned subsidiary of the Company, and Ningbo AUX Real Estate entered into the 2016 Framework Agreement pursuant to which Ningbo

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## LETTER FROM THE BOARD

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AUX Property agreed to provide various types of property management services to Ningbo AUX Real Estate including the maintenance, cleaning and security services in connection with the residential development projects of Ningbo AUX Real Estate.

Given the recent business development of Ningbo AUX Real Estate and in particular the increase in the number of property development projects to be completed by Ningbo AUX Real Estate, the Company has reviewed the existing annual caps under the 2016 Framework Agreement and expects that the annual caps for the year ending 31 December 2018 of RMB20.1 million and for the year ending 31 December 2019 of RMB17.4 million as approved at the extraordinary general meeting of the Company held on 20 March 2017 will be exceeded.

Furthermore, Ningbo AUX Property entered into the 2018 Framework Agreement I and the 2018 Framework Agreement II with AUX Group and Ningbo Sanxing respectively on 15 October 2018 for a term commencing on the date of approval by the Independent Shareholders at the EGM and ending on 31 December 2020.

Pursuant to the 2018 Framework Agreement I and the 2018 Framework Agreement II, Ningbo AUX Property agrees to provide property management services to AUX Group and Ningbo Sanxing for offices, commercial properties and car park units occupied by them.

As such, the Company intends to seek approvals from the Independent Shareholders in respect of (i) the extension of the term of the 2016 Framework Agreement and the revision of the annual caps in respect of the transactions contemplated thereunder in accordance with the 2018 Supplemental Agreement; and (ii) the transactions contemplated under the 2018 Framework Agreements at the EGM. The purpose of this circular is to provide you with, among other things, (i) detailed information regarding the 2018 Supplemental Agreement, the Amended 2016 Framework Agreement Annual Caps and the 2018 Framework Agreements; (ii) the recommendations from the Independent Board Committee to the Independent Shareholders in respect of the foregoing matters; (iii) a letter of advice from the IFA to the Independent Board Committee and the Independent Shareholders in respect of the foregoing matters; and (iv) a notice convening the EGM.

### **THE 2018 SUPPLEMENTAL AGREEMENT AND THE AMENDED 2016 FRAMEWORK AGREEMENT**

Taking into account the recent increase in land bank and the current status of the project development schedule of Ningbo AUX Real Estate, it is expected that the aggregate amounts of services fees which may be charged by Ningbo AUX Property during the years ending 31 December 2018 and 31 December 2019 will increase and the annual caps under the 2016 Framework Agreement of RMB20.1 million for the year ending 31 December 2018 and RMB17.4 million for the year ending 31 December 2019 as approved at the extraordinary general meeting of the Company held on 20 March 2017 will not suffice to meet the expected increase in demand from Ningbo AUX Real Estate. Hence, on 15 October, Ningbo AUX Property and Ningbo AUX Real Estate entered into the 2018 Supplemental Agreement pursuant to which, subject to approval by the Independent Shareholders at the EGM, (i) the annual caps for the amount of fees that may be charged by Ningbo AUX Property for the provision of property management services to Ningbo AUX



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## LETTER FROM THE BOARD

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Real Estate shall be increased to RMB30.0 million and RMB47.7 million for the years ending 31 December 2018 and 31 December 2019 respectively; (ii) the scope of property management services shall be extended to include vacant retail shop property management services to be provided to existing shopping complexes owned by Ningbo AUX Real Estate; and (iii) the term of the 2016 Framework Agreement shall be extended to 31 December 2020 and the annual cap for the amount of fees that may be charged by Ningbo AUX Property for the provision of property management services to Ningbo AUX Real Estate during the year ending 31 December 2020 shall be set at RMB55.6 million. Save the above, all the terms and conditions of the 2016 Framework Agreement will remain unchanged.

The Company confirms that the amounts of service fees charged by the Company pursuant to the 2016 Framework Agreement have not exceeded the respective annual caps as approved at the extraordinary general meeting of the Company held on 20 March 2017 for the year ended 31 December 2017 and for the year ending 31 December 2018 (as at the Latest Practicable Date).

### **The Amended 2016 Framework Agreement**

A summary of the principal terms of the 2016 Framework Agreement as amended by the 2018 Supplemental Agreement is set forth below:

Date: 15 October 2018

Parties: (1) Ningbo AUX Property  
(2) Ningbo AUX Real Estate (for itself and as trustee for the benefit of its subsidiaries from time to time)

Term of the agreement: Subject to the approval by the Independent Shareholders at the EGM, the Amended 2016 Framework Agreement shall be effective until 31 December 2020.

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## LETTER FROM THE BOARD

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Type of services, pricing policies and payment for services fees:

Ningbo AUX Property shall be commissioned to provide various types of property management services including the maintenance, cleaning and security services in connection with the development projects of residential properties and shopping complexes launched from time to time by Ningbo AUX Real Estate and its subsidiaries and associates. Ningbo AUX Property will provide Unsold Residential Units Property Management Services to completed property development projects of Ningbo AUX Real Estate. Pre-sale Management Service and Sales Offices Management services will be provided to each development project according to their development phase and sales situation. Vacant Retail Shop Property Management Services will be provided to existing shopping complexes owned by Ningbo AUX Real Estate. The types of services and their respective pricing policies and payment as summarised below:

**a. Pre-sale Management Service**

Scope of services: Management and maintenance of residential properties and facilities of property development projects of Ningbo AUX Real Estate before delivery

It is currently expected that the Ningbo AUX Real Estate will deliver around 4, 8 and 8 property development projects in the years ending 31 December 2018, 2019 and 2020, respectively.

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## LETTER FROM THE BOARD

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Pricing policy: In respect of property development projects in the city of Ningbo, the price shall be determined by reference to the pricing requirements prescribed by the relevant local regulations from time to time for different types of property development projects (e.g. Notice of the Ningbo Pricing Regulation on Pre-Sale Property management services). In other cities, considering they are all tier-2 cities in PRC similar to Ningbo in terms of size and nature of property projects, in the absence of any pricing requirement from time to time prescribed by local government, prices will be determined based on the prices in Ningbo. Except for Ningbo, the prevailing market prices in cities where the relevant property development projects are located are currently not prescribed by the local governments.

The Group will also take into account the expected operational costs and the anticipated increase in such costs to be involved when it decides to enter into specific agreements for each development project.

Payment term: Payment shall be made annually, half yearly, quarterly or monthly (as the case may be) pursuant to the relevant terms of the specific agreements to be entered into.

### **b. Sales Offices Management Services**

Scope of services: Cleaning, security and customer services at the sales offices and showrooms in the property development projects

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## LETTER FROM THE BOARD

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Pricing policy: The prices will be determined and charged based on the actual cost relating to provision of management service plus a rate of management fee to be agreed under the specific agreement for the property development project (which shall in any event be not less than 10%, being the minimum rate generally charged by other independent service providers in the market, and shall be on terms not more favourable to Ningbo AUX Real Estate than those then offered by Ningbo AUX Property to independent third parties for comparable services).

The Group will also take into account the then prevailing market price, the historical and anticipated property management costs, including labour costs and material costs.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreements to be entered into.

**c. Unsold Residential Units Property Management Services**

Scope of services: Maintaining and cleaning of unsold residential units

Pricing policy: The prices will be agreed with the property developer and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for sold property units of independent third parties, ranging from RMB1.8 to RMB8.5 per square meter per month depending on the location and nature of the properties (for example different rates are charged to high-rise, condo and villa), and shall be on terms not more favourable to Ningbo AUX Real Estate than those offered by Ningbo AUX Property to independent third parties for comparable services.

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## LETTER FROM THE BOARD

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Such rates of management fees have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreements to be entered into.

**d. Vacant Retail Shop Property Management Services**

Scope of services: Maintaining and cleaning of vacant retail shop units

Pricing policy: The prices will be agreed with the property owner and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for shop units rented to independent third parties, ranging from RMB5.0 to RMB65.0 per square meter per month depending on the location of the vacant shop unit (for example, different rates are charged to anchor shop and ground floor shop), and shall be on terms not more favourable to Ningbo AUX Real Estate than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fees have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreements to be entered into.

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## LETTER FROM THE BOARD

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Specific agreements: For each property development project and shopping complex of Ningbo AUX Real Estate which requires the property management services under the Amended 2016 Framework Agreement, Ningbo AUX Real Estate and Ningbo AUX Property will (directly or through their respective subsidiaries or branches) enter into a specific agreement setting out the specific scope of services required and amount of fees payable in conformity with the terms (including the pricing policy mentioned above) set out in the Amended 2016 Framework Agreement.

All transactions contemplated under the Amended 2016 Framework Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis.

### **Historical information and annual caps of transactions under the Amended 2016 Framework Agreement**

The following table sets out the amount of previous continuing connected transactions between Ningbo AUX Property and Ningbo AUX Real Estate under the 2016 Framework Agreement:

	<b>For the year ended 31 December 2017</b>	<b>For the year ending 31 December 2018</b>	<b>For the year ending 31 December 2019</b>
	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>
Annual caps	34.0	20.1	17.4
Historical transaction recorded	15.5 <i>(note 1)</i>	18.8 <i>(note 2)</i>	N/A
Utilisation rate	45.5%	93.5%	N/A

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## LETTER FROM THE BOARD

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The annual caps for the year ending 31 December 2018 and for the year ending 31 December 2019 under the 2016 Framework Agreement, as well as the new proposed annual caps for the years ending 31 December 2018, for the year ending 31 December 2019 and for the year ending 31 December 2020 under the Amended 2016 Framework Agreement are set out below:

***Proposed revised annual caps***

	<b>For the year ending 31 December 2018</b>	<b>For the year ending 31 December 2019</b>	<b>For the year ending 31 December 2020</b>
	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>
Annual caps under the 2016 Framework Agreement	20.1	17.4	N/A
New proposed annual caps pursuant to the Amended 2016 Framework Agreement	30.0	47.7	55.6

*Notes:*

1. Actual fees charged by Ningbo AUX Property for the period from 5 May 2017 to 31 December 2017.
2. Based on the unaudited consolidated management accounts of the Group for the period from 1 January 2018 to 31 October 2018.

***Basis of the proposed annual caps under the Amended 2016 Framework Agreement***

The proposed annual caps for the Amended 2016 Framework Agreement are determined with reference to:

- (i) the historical amounts of fees charged by Ningbo AUX Property for the property management services provided to Ningbo AUX Real Estate under the 2016 Framework Agreement, being approximately RMB15.5 million for the year ended 31 December 2017 and approximately RMB18.8 million for the 10 months ended 31 October 2018;
- (ii) the expected demand of Ningbo AUX Real Estate for property management services for the years ending 31 December 2018, 2019 and 2020 with reference to the existing 2016 Framework Agreement, the timetable of future development projects of Ningbo AUX Real Estate (it is currently expected that, among the existing development projects, Ningbo AUX Real Estate will complete the sale of 4, 3 and 4 new property development project(s) and will deliver around 4, 8 and 8 property development projects in 2018, 2019 and

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## LETTER FROM THE BOARD

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2020, respectively, and the remaining existing projects are expected to be sold in 2021 and shortly afterwards) and the number of existing shopping complexes;

- (iii) the estimated vacancy rate of the existing shopping complexes owned by Ningbo AUX Real Estate for the years ending 31 December 2018, 2019 and 2020 with reference to the historical vacancy rate of the year ended 31 December 2017 and of the eight months period ended 31 August 2018; and
- (iv) other factors such as the business plans of Ningbo AUX Property (based on the business plans to be provided by Ningbo AUX Real Estate and the ongoing tracking of the actual construction progress, Ningbo AUX Property will get involved at the preliminary stage of the project management and put together the working teams three to six months before the delivery of the properties constructed in the relevant property development projects, and then enter into the specific agreements under the Amended 2016 Framework Agreement with Ningbo AUX Property at appropriate times; hence the property development plan of Ningbo AUX Real Estate will affect the Ningbo AUX Property's schedules for the provision of property management services) and inflation.

The details in relation to the proposed increase in the annual caps contemplated under the Amended 2016 Framework Agreement for the year ending 31 December 2018 and the year ending 31 December 2019 of RMB9.9 million and RMB30.3 million are determined as follows:

1. as a result of Ningbo AUX Real Estate's recent success in land tender, the number of property development projects completed by Ningbo AUX Real Estate in respect of which property management services are expected to be provided has increased by five in 2018 and is currently expected to increase by twelve in 2019, as compared with the estimates at the time the annual caps for the transactions under the 2016 Framework Agreements were determined; accordingly, additional service fees of approximately RMB3.5 million are expected to be charged by Ningbo AUX Property for the sales offices management services in respect of all the five additional projects of Ningbo AUX Real Estate in 2018, and additional service fees of approximately RMB20.5 million are expected to be charged by Ningbo AUX Property for the sales office management services in respect of all the 12 additional projects, the pre-sale management services in respect of five additional projects and the unsold residential units property management services in respect of four additional projects of Ningbo AUX Real Estate in 2019;
2. the development timetable of certain property development projects of Ningbo AUX Real Estate which had been taken into account at the time the annual caps for the transactions contemplated under the 2016 Framework Agreements were determined has been accelerated; as such, additional service



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## LETTER FROM THE BOARD

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fees of approximately RMB6.4 million are expected be charged by Ningbo AUX Property for the sales offices management services in respect of one existing project, the pre-sale management services in respect of two existing projects and the unsold residential units property management services in respect of three existing projects of Ningbo AUX Real Estate in 2018, and additional service fees of approximately RMB4.0 million are expected to be charged by Ningbo AUX Property for the sales offices management services in respect of one existing project, the pre-sale management services in respect of one existing project and the unsold residential units property management services in respect of two existing projects of Ningbo AUX Real Estate in 2019; and

3. given the long term business relationship between Ningbo AUX Property and Ningbo AUX Real Estate and the proven service quality of Ningbo AUX Property, Ningbo AUX Real Estate will primarily direct its resources to its property development business and has requested Ningbo AUX Property to provide property management services for its shopping complexes in Chengdu, Changsha and Qingdao. As such, the scope of property management services to be provided by Ningbo AUX Property has been widened, potentially giving rise to additional fees of approximately RMB5.8 million that may be charged in respect of the new type of property management services for vacant retail shop units.

In view of the above, the estimated service fees that may be charged by Ningbo AUX Property to Ningbo AUX Real Estate in the year ending 31 December 2018 and the year ending 31 December 2019 will increase by approximately RMB9.9 million and RMB30.3 million respectively. The aforesaid estimated increase is calculated after comparing the latest estimated aggregated amount and the estimated aggregated amount in the past.

### **THE 2018 FRAMEWORK AGREEMENTS**

Ningbo AUX Property intends to provide management services in respect of offices, commercial buildings and car park units occupied by AUX Group and Ningbo Sanxing in the ordinary course of the Group's business. As such, Ningbo AUX Property has entered into the 2018 Framework Agreement I and the 2018 Framework Agreement II with AUX Group (for itself and as trustee for the benefit of its subsidiaries from time to time) and Ningbo Sanxing (for itself and as trustee for the benefit of its subsidiaries from time to time) respectively.

#### **The 2018 Framework Agreement I**

A summary of the principal terms of the the 2018 Framework Agreement I are as follows:

Date: 15 October 2018

Parties: (1) Ningbo AUX Property

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## LETTER FROM THE BOARD

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- (2) AUX Group (for itself and as trustee for the benefit of its subsidiaries from time to time)

Term of the agreement: Subject to the approval by the Independent Shareholders at the EGM, the 2018 Framework Agreement I shall be effective a term commencing on the date of approval by the Independent Shareholders at the EGM and ending on 31 December 2020.

Type of services, pricing policies and payment for services fees: Ningbo AUX Property shall be commissioned to provide property management services including the maintenance, cleaning and security services in connection with the offices, car park units and commercial properties occupied by AUX Group and its subsidiaries and associates with the types of services and their respective pricing policies and payment as summarised below:

**a. Office and Commercial Property Management Services**

Scope of services: Maintenance and cleaning of office and commercial properties occupied by AUX Group and its subsidiaries and associates

Pricing policy: The prices will be agreed with AUX Group and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for office units and commercial properties leased by independent third parties, ranging from RMB3.5 to RMB6.0 per square meter per month depending on the location and nature of the properties (for example different rates are charged to offices in Ningbo and Hangzhou), and shall be on terms not more favourable to AUX Group than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fees have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

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## LETTER FROM THE BOARD

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Payment term: Payment shall be made monthly pursuant to the terms of the specific agreements to be entered into

**b. Car Park Management Services**

Scope of services: Maintenance and cleaning of car park units occupied by AUX Group and its subsidiaries and associates

Pricing policy: The prices will be agreed with AUX Group and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for car park units leased by independent third parties, ranging from RMB40 to RMB80 per unit per month depending on the location of the car park units (for example, different rates are charged to carparks in Ningbo and Hangzhou), and shall be on terms not more favourable to AUX Group than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fee have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreement to be entered into.

### **The 2018 Framework Agreement II**

A summary of the principal terms of the 2018 Framework Agreement II are as follows:

Date: 15 October 2018

Parties: (1) Ningbo AUX Property  
(2) Ningbo Sanxing (for itself and as trustee for the benefit of its subsidiaries from time to time)

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## LETTER FROM THE BOARD

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Term of the agreement: Subject to the approval by the Independent Shareholders at the EGM, the 2018 Framework Agreement II shall be effective for a term commencing on the date of approval by the Independent Shareholders at the EGM and ending on 31 December 2020.

Type of services, pricing policies and payment for services fees: Ningbo AUX Property shall be commissioned to provide property management services including the maintenance, cleaning and security services in connection with the offices and car park units occupied by Ningbo Sanxing and its subsidiaries and associates with the types of services and their respective pricing policies and payment as summarised below:

**a. Office Property Management Services**

Scope of services: Maintenance and cleaning of offices occupied by Ningbo Sanxing and its subsidiaries and associates

Pricing policy: The prices will be agreed with Ningbo Sanxing and shall be based on the prevailing rates of management fees charged by independent third parties for offices leased by independent third parties, ranging from RMB4.5 to RMB6 per square meter per month depending on the location of the properties (for example, different rates are charged to offices in Ningbo and Hangzhou), and shall be on terms not more favourable to Ningbo Sanxing than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fees have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreement to be entered into.

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## LETTER FROM THE BOARD

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### b. Car Park Management Services

Scope of services: Maintenance and cleaning of car park units occupied by Ningbo Sanxing and its subsidiaries and associates

Pricing policy: The prices will be agreed with Ningbo Sanxing and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for car park units leased by independent third parties, ranging from RMB50 to RMB80 per unit per month depending on the location of the car park units (for example, different rates are charged to car parks in Ningbo and Hangzhou), and shall be on terms not more favourable to Ningbo Sanxing than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fee have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreement to be entered into.

### The proposed annual caps under the 2018 Framework Agreements

The proposed annual caps for the continuing connected transactions contemplated under the 2018 Framework Agreements for the three years ending 31 December 2018, 2019 and 2020 are set out as follows:

#### *The proposed annual caps under the 2018 Framework Agreement I*

	<b>Year ending 31 December 2018</b>	<b>Year ending 31 December 2019</b>	<b>Year ending 31 December 2020</b>
	<i>(Note)</i>		
	<i>RMB Million</i>	<i>RMB Million</i>	<i>RMB Million</i>
Annual Caps	0.3	3.7	3.7

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**LETTER FROM THE BOARD**

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*The proposed annual caps under the 2018 Framework Agreements II*

	<b>Year ending 31 December 2018 (Note) RMB Million</b>	<b>Year ending 31 December 2019 RMB Million</b>	<b>Year ending 31 December 2020 RMB Million</b>
Annual Caps	0.04	0.40	0.40

*Note:* for the month ending 31 December 2018

*Basis of the proposed annual caps for the 2018 Framework Agreements*

The proposed annual caps for the 2018 Framework Agreement I are determined with reference to:

- (i) the historical size of office units and commercial properties and number of car park units occupied by AUX Group and its subsidiaries and associates as at 31 December 2017 and as at 30 September 2018 as follows:

	<b>Size of office units and commercial properties (square meters)</b>	<b>Number of car park units</b>
As at 31 December 2017	44,787	953
As at 30 September 2018	60,726	1,005

; and

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**LETTER FROM THE BOARD**

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- (ii) other factors such as the expected demand of AUX Group and its subsidiaries and associates for property management services for the year ending 31 December 2018, 2019 and 2020 with reference to their needs in office space and car park units. It is estimated that the size of office units and commercial properties and the number of car park units occupied by AUX Group and its subsidiaries and associates in respect of which property management services will be required to be provided by Ningbo AUX Property for each of the three years ending 31 December 2018, 2019 and 2020 will be as follows:

	<b>Size of office units and commercial properties</b> <i>(square meters)</i>	<b>Number of car park units</b>
Year ending 31 December 2018	60,726	1,005
Year ending 31 December 2019	60,726	1,005
Year ending 31 December 2020	60,726	1,005

Accordingly, based on the estimated average rate of monthly management fee for office units and commercial properties of RMB4.0 per square meter and the average rate of monthly management fee for car park units of RMB65.7 per unit, the aggregate amount of management fees to be charged to AUX Group in respect of each type of management services to be provided for each of the three years ending 31 December 2018, 2019 and 2020, which forms the basis for the annual caps for the 2018 Framework Agreement I, is as follows:

	<b>Office and commercial property management services</b> <i>(RMB million)</i>	<b>Car park management services</b> <i>(RMB million)</i>
Year ending 31 December 2018 (for the month ending 31 December 2018)	0.2	0.1
Year ending 31 December 2019	2.9	0.8
Year ending 31 December 2020	2.9	0.8

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## LETTER FROM THE BOARD

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The proposed annual caps for the 2018 Framework Agreement II are determined with reference to:

- (i) the historical size of offices units and number of car park units occupied by Ningbo Sanxing and its subsidiaries and associates as at 31 December 2017 and as at 30 September 2018 as follows:

	<b>Size of office units</b> <i>(square meters)</i>	<b>Number of car park units</b>
As at 31 December 2017	6,594	16
As at 30 September 2018	5,838	17

; and

- (ii) other factors such as the expected demand of Ningbo Sanxing and its subsidiaries and associate for property management services for the year ending 31 December 2018, 2019 and 2020 with reference to their needs in office space and car park units. It is estimated that the size of the office units and commercial properties and the number of car park units occupied by Ningbo Sanxing and its subsidiaries and associates in respect of which property management services will be required to be provided by Ningbo AUX Property for each of the three years ending 31 December 2018, 2019 and 2020 will be as follows:

	<b>Size of office units</b> <i>(square meters)</i>	<b>Number of car park units</b>
Year ending 31 December 2018	5,838	17
Year ending 31 December 2019	5,838	17
Year ending 31 December 2020	5,838	17



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## LETTER FROM THE BOARD

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Accordingly, based on the estimated average rate of monthly management fee for office units of RMB5.5 per square meter and the average rate of monthly management fee for car park units of RMB56.7 per unit, the aggregate amount of management fees to be charged to Ningbo Sanxing in respect of each type of management services to be provided for each of the three years ending 31 December 2018, 2019 and 2020, which forms the basis for the annual caps for the 2018 Framework Agreement II, is as follows:

	<b>Office property management services</b> <i>(RMB million)</i>	<b>Car park management services</b> <i>(RMB million)</i>
Year ending 31 December 2018 (for the month ending 31 December 2018)	0.03	0.01
Year ending 31 December 2019	0.39	0.01
Year ending 31 December 2020	0.39	0.01

### **Reasons for and Benefits of the 2018 Supplemental Agreement and the 2018 Framework Agreements**

The Group currently operates two clubs, namely the Magnum Club and Zentral with a span of over 20,000 square feet in the heart of the Lan Kwai Fong area.

Zentral is currently in operation and had generated revenue amounting to approximately HK\$83.4 million and HK\$42.4 million for the year ended 31 March 2018 and the six months ended 30 September 2018 respectively, representing approximately 82.7% and 100% of the revenue from the clubbing business segment of the Group during the corresponding period.

As the performance of the clubbing business segment has been less than optimistic in recent years, the Group endeavors to enhance the clubs' appeal to its customer and announced its plan to renovate Magnum Club with effect from 14 January 2018. As such, the Magnum Club has been temporarily closed since then, which resulted in significant decrease in the revenue contribution from the Magnum Club to the Group. The revenue generated by Magnum Club during the year ended 31 March 2018 amounted to approximately HK\$17.5 million, representing approximately 17.3% of the revenue of the Group from the clubbing business segment during the financial year, and no revenue had been recorded during the six months ended 30 September 2018. The renovation was initially expected to take approximately 8 months to complete. However, due to, among others, the additional time required for obtaining relevant approvals from the Buildings Department and the Fire Services Department in respect of certain renovation works of the Magnum Club, the reopening of the Magnum Club has been postponed. It is currently expected that the Mangum Club will reopen before Christmas this year.

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## LETTER FROM THE BOARD

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The Directors believe that upon completion of the renovation works, the Magnum Club will be able to offer renewed and enhanced clubbing experiences which match the prevailing preferences and expectations of the customers and sustain its position as the clubbing venue of choice among local and foreign clubbers notwithstanding the opening of certain new clubs in the surrounding area. As such, the Directors expect that the forthcoming reopening of the Magnum Club will enhance the Group's brand as a leading entertainment service provider in the Lan Kwai Fong and bring organic growth momentum to the Group's clubbing business segment. Apart from that, the Group will continue its search for opportunities to improve the clubbing business segment's performance in the future.

In view of the short-term financial impact the temporary closure of Magnum Club may have on the Group's performance, it is vital that the Group maintains stable and sustainable revenue and cash flow from its property management business segment, so as to avoid any significant fluctuation in the overall revenue and cash flow of the Group.

Ningbo AUX Real Estate, as an established business partner of Ningbo AUX Property, has shown its growth momentum in the last 12 months with its total land bank increasing from approximately 2.28 million sq.m. around the time the 2016 Framework Agreement was signed to approximately 2.91 million sq.m. as at the Latest Practicable Date.

Hence, the Directors are of the view that the entering into of the 2018 Supplemental Agreement and the 2018 Framework Agreements will enable Ningbo AUX Property and the Group as a whole to benefit from the recent growth of Ningbo AUX Real Estate and provide stable demand for the Company's property management business segment. As such, the Directors believe that the entering into of the 2018 Supplemental Agreement and the 2018 Framework Agreements will help to reduce the impact on the financial performance of the Group while Magnum Club remains closed for renovation, ensure the Group will have sufficient financial resources to achieve healthy and sustainable development of both its clubbing business and property management business, and contribute to the business growth of the Group as a whole in the long run.

AUX Group is a well-known conglomerate with business in manufacturing of electrical and household appliance, health care and finance investment. AUX Group owns and maintains number of offices and car park units in different cities.

Ningbo Sanxing, the shares of which are listed on the Shanghai Stock Exchange, operates in the manufacturing of electricity measurement equipment and provision of healthcare services in PRC. In addition to the offices and car parks occupied by Ningbo Sanxing, it also owns and operates several industrial parks across the country.

The Directors are of the view that the entering into of the 2018 Framework Agreement I and II will enable Ningbo AUX Property to establish its business in office property management services and build up a solid foundation for providing extensive property management services to AUX Group and Ningbo Sanxing when opportunity arise.

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## LETTER FROM THE BOARD

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Notwithstanding the existing and proposed continuing connected transactions under the Amended 2016 Framework Agreement and the 2018 Framework Agreements, the Directors do not consider that the Group will unduly rely on its connected persons in its business and operations. The table below sets forth a breakdown of the number of service contracts valid and existing as at 30 September 2018 and the expected number of service contracts valid and existing as at 31 March 2019 (on the assumption that the 2018 Supplemental Agreement and the 2018 Framework Agreements will be approved by the Independent Shareholders at the EGM and new service contracts will be entered into with the respective connected persons of the Company under the Amended 2016 Framework Agreement and the 2018 Framework Agreements):

	As at 30 September 2018		As at 31 March 2019	
	Number	Percentage	Number	Percentage
Service contracts with				
• connected persons of the Company	49	0.1%	57	0.1%
• independent third parties	<u>36,577</u>	<u>99.9%</u>	<u>38,165</u>	<u>99.9%</u>
All valid and existing property management service contracts	<u><u>36,626</u></u>	<u><u>100.0%</u></u>	<u><u>38,222</u></u>	<u><u>100.0%</u></u>

The table below sets forth a breakdown of the revenue for the six months ended 30 September 2018 and the forecast total revenue for the year ending 31 March 2019 (on the assumption that the 2018 Supplemental Agreement and the 2018 Framework Agreements will be approved by the Independent Shareholders at the EGM and new service contracts will be entered into with the respective connected persons of the Company under the Amended 2016 Framework Agreement and the 2018 Framework Agreements) of the property management business segment of the Group:

	Six months ended 30 September 2018		Year ending 31 March 2019	
	Amount <i>HK\$'000</i>	Percentage	Amount <i>HK\$'000</i>	Percentage
Revenue contributed/expected to be contributed by				
• connected persons of the Company	21,461	20.1%	59,435	24.5%
• independent third parties	<u>85,298</u>	<u>79.9%</u>	<u>184,006</u>	<u>75.5%</u>
Total revenue of the property management business segment	<u><u>106,759</u></u>	<u><u>100.0%</u></u>	<u><u>243,441</u></u>	<u><u>100.0%</u></u>

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## LETTER FROM THE BOARD

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As shown by the tables above, the customers of the Group in its property management business have predominantly been, and are expected to continue to predominantly be independent third parties in terms of the number of valid and existing property management service contracts, and the independent third parties customers had contributed approximately 79.9% of the total revenue of the property management business segment of the Group during the six months ended 30 September 2018 and are expected to contribute approximately 75.5% of the total revenue for the year ending 31 March 2019 even taking into account the continuing connected transactions contemplated under the Amended 2016 Framework Agreement and the 2018 Framework Agreements.

It is expected that the entering into of the 2018 Supplemental Agreement will not result in any material change to the respective revenue contribution of connected persons and independent third parties in the property management business segment of the Group. Under the Amended 2016 Framework Agreement, Ningbo AUX Property will gain access to more potential independent third party customers, being the owners of the residential properties developed and sold by Ningbo AUX Real Estate from time to time. With its reputation and experience in providing property management services, the Directors believe that the Group will be able to capture such business opportunities and expand its customer base by providing property management services to such owners of sold residential properties directly. As such, not only will the Group record additional revenue through the continuing connected transactions contemplated under the Amended 2016 Framework Agreement, but the Group will also be able to build business relationships with new independent third parties customers, i.e. the owners of the sold residential properties, which will further generate additional revenue for the Group on a continual basis.

Leveraging the resources of the connected persons and the brand image and awareness and the portfolio of managed properties established through the continuing connected transactions, the Group will actively seek to expand its customer base. The above is but one way in which such expansion is intended to be achieved in the property management business segment. The Directors believe that the proportion of independent third party customers in the Group's customer base and their revenue contribution will remain at a predominant level in the future. The Directors are of the view that the existing and proposed continuing connected transactions under the Amended 2016 Framework Agreement and the 2018 Framework Agreements will not give rise to any excessive reliance of the Group on the connected persons of the Company and the Group will be able to carry on its business independently in a viable and sustainable manner.

Except for Mr. Zheng Jiang, the chairman of the Board and an executive Director who is the brother of Mr. Zheng Jian Jiang, and Ms. Shen Guoying, an executive Director who is a director of Ningbo Sanxing, none of the Directors has or is deemed to have a material interest in the 2018 Supplemental Agreement and the transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Revised 2016 Framework Agreement Annual Caps) and the 2018 Framework Agreements and the transactions contemplated thereunder (including their respective proposed annual caps). Mr. Zheng Jiang and Ms. Shen Guoying have abstained from voting on the relevant resolutions at the board meeting.

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## LETTER FROM THE BOARD

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The terms and conditions of the 2018 Supplemental Agreement and the 2018 Framework Agreements were negotiated between the parties thereto on an arm's length basis. The Directors are of the view that the terms and conditions of the 2018 Supplemental Agreement (including the pricing mechanism and procedures) and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements (including the pricing mechanism and procedures) and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps) are fair and reasonable and in the interests of the Shareholders as a whole, and such continuing connected transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholder as a whole.

### MEASURES OF INTERNAL CONTROL

The Company has implemented the following internal control measures for monitoring the pricing and terms of the transactions contemplated under the Amended 2016 Framework Agreement and the 2018 Framework Agreements and for ensuring that the transactions conducted under such agreements will be entered into based on normal commercial terms:

- (1) prior to entering into the specific agreements under the Amended 2016 Framework Agreement and the 2018 Framework Agreements, the legal department, the financial department and the operation department of the Company are responsible for the negotiation of the contractual terms with reference to property management fees for comparable services for comparable properties (where references will be made (where applicable) to the property management fees charged by Ningbo AUX Property to independent third parties for comparable services for comparable properties and the other relevant contract terms in respect thereof and by way of performing research on the recent prices charged by at least two independent service providers in the area(s) in proximity of the new projects by referring to the properties located in the same or nearby streets/complex, similar-sized properties and services prices charged on those properties, etc. and a report on the above will be prepared afterwards) and/or pricing requirement(s) prescribed by the relevant local regulation(s) and guidance price(s) stipulated by local authority(ies) to ensure that the management fees charged by Ningbo AUX Property and the terms of the agreements are in conformity with Amended 2016 Framework Agreement and the 2018 Framework Agreements and on normal commercial terms that are no less favourable to the Company than those available to or from independent third parties. The financial department is responsible for the final approval of the terms of the specific agreements under the Amended 2016 Framework Agreement and the 2018 Framework Agreements;
- (2) upon execution of the specific agreements under the Amended 2016 Framework Agreement and the 2018 Framework Agreements, the legal department of the Company is responsible for continuously monitoring and checking on a monthly

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## LETTER FROM THE BOARD

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basis as to whether the relevant laws and regulations on property management prices have been amended, in order to ensure that the price(s) paid by the property owners remain consistent with the requirements pursuant to the relevant laws and regulations; and

- (3) throughout the term of the Amended 2016 Framework Agreement and the 2018 Framework Agreements, the operation department and the financial department are responsible for monitoring the implementation of the specific agreements under the Amended 2016 Framework Agreement and the 2018 Framework Agreements to ensure that the terms, including the fees charged under the agreements, are strictly adhered to by the parties to the agreements. Any deviation from the contract terms thereof should be reported to the management of the Company for further actions. In addition, the management of the Company will perform spot checks on the implementation of the Amended 2016 Framework Agreement and the 2018 Framework Agreements to ensure compliance of the contract terms as and when necessary.

In addition to the above, the Group will also adopt the following internal control measures in respect of the continuing connected transactions contemplated under the Amended 2016 Framework Agreement and the 2018 Framework Agreements:

- (i) dedicated personnel of Ningbo AUX Property will be responsible for regular monitoring of the continuing connected transactions under the Amended 2016 Framework Agreement and the 2018 Framework Agreements to ensure that the relevant annual caps will not be exceeded;
- (ii) internal review will be conducted by the Group to assess, on a periodic basis, whether the property management services have been provided by Ningbo AUX Property to Ningbo AUX Real Estate and/or its subsidiaries from time to time in accordance with the terms of the Amended 2016 Framework Agreement and the 2018 Framework Agreements. In particular, the financial department and the audit department of the Company will be responsible for
  - (i) collecting detailed information of the continuing connected transactions (including but not limited to the pricing terms, payment arrangements and actual transaction amount under each of the service agreements) on a regular basis;
  - (ii) monitoring whether the transaction terms and pricing and other terms under each of the individual service agreements are consistent with the principles established under the Amended 2016 Framework Agreement and the 2018 Framework Agreements in respect of the continuing connected transactions;
  - (iii) conducting continuous evaluation on the fairness of the transaction terms and the pricing terms; and
  - (iv) reporting relevant information to the Board in a timely manner;

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## LETTER FROM THE BOARD

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- (iii) the Company will engage its auditors to conduct an annual review of the continuing connected transactions conducted pursuant to the Amended 2016 Framework Agreement and the 2018 Framework Agreements and confirm whether such transactions are entered into, in all material respects, in accordance with the pricing policies and other terms set out in the Amended 2016 Framework Agreement and the 2018 Framework Agreements and have exceeded the relevant annual caps; and
- (iv) the independent non-executive Directors will review the continuing connected transactions to be entered into pursuant to the Amended 2016 Framework Agreement and the 2018 Framework Agreements on an annual basis and confirm in the annual reports of the Company for the years ending 31 March 2018, 2019 and 2020 whether such continuing connected transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the Amended 2016 Framework Agreement and the 2018 Framework Agreements on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors consider that the above internal control measures can ensure that the transactions under the Amended 2016 Framework Agreement and the 2018 Framework Agreements will be conducted on normal and commercial terms and not prejudicial to the interests of the Company and its Shareholders.

### IMPLICATION UNDER THE LISTING RULES

As at the Latest Practicable Date, Ningbo AUX Real Estate and AUX Group are companies each held as to 85% by Mr. Zheng Jian Jiang, a controlling shareholder of the Company indirectly holding approximately 58.66% of the total number of issued Shares. Ningbo Sanxing is a 30%-controlled company held by Mr. Zheng Jian Jiang. As such, Ningbo AUX Real Estate, AUX Group and Ningbo Sanxing are associates of Mr. Zheng Jian Jiang and connected persons of the Company under the Listing Rules. Therefore, the transactions contemplated under the Amended 2016 Framework Agreement and the 2018 Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Amended 2016 Framework Agreement and the 2018 Framework Agreements exceed(s) 5% and the relevant consideration exceeds HK\$10 million on an aggregate basis, the transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An EGM of the Company will be convened to seek the approval of the Independent Shareholders in respect of the 2018 Supplemental Agreement and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps). Mr. Zheng Jian Jiang, Ze Hui Limited and Hui

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## LETTER FROM THE BOARD

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Limited and their respective associates, and all other Shareholders materially interested in foregoing matters shall abstain from voting on the resolutions in relation to such matters at the EGM.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders on the foregoing matters, and Grand Moore Capital Limited has been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders in this regard.

### INFORMATION ON PARTIES TO THE CONTINUING CONNECTED TRANSACTIONS

#### The Company

The company is an investment holding company. The activities of its principal operating subsidiaries include operation of clubbing business in Hong Kong and provision of property management services in the PRC.

#### AUX Group

AUX Group is a conglomerate with business in manufacturing of electrical equipment and household appliance, health care and finance investment.

#### Ningbo AUX Real Estate

Ningbo AUX Real Estate is principally engaged in property development for residential and commercial properties in PRC.

#### Ningbo Sanxing

Ningbo Sanxing is a joint stock limited liability company established in the PRC, the issued Shares of which are listed on the Shanghai Stock Exchange. Its principal operations include manufacturing of electricity measurement equipment and provision of healthcare services in PRC.

#### EGM

The EGM will be held on Thursday, 27 December 2018 at 11:00 a.m. at Room 1703–1704, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong during which ordinary resolutions shall be proposed to the Independent Shareholders to approve the 2018 Supplemental Agreement and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps). A notice of the EGM is set out on pages EGM-1 to EGM-4 of this circular.

Pursuant to Rule 13.39 of the Listing Rules, the resolutions to be proposed at the EGM will be taken by poll, the results of which will be announced after the EGM.



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## LETTER FROM THE BOARD

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Mr. Zheng Jian Jiang, Ze Hui Limited and Hui Limited and their respective associates, and all other Shareholders materially interested in the 2018 Supplemental Agreement and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps) are required to abstain from voting on the resolutions proposed to be passed at the EGM for approving the foregoing matters.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, Mr. Zheng Jian Jiang, Ze Hui Limited and Hui Limited and their respective associates held and control the voting rights in respect of an aggregate of 219,950,000 Shares, representing approximately 58.66% of the total number of Shares in issue as at the Latest Practicable Date.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. at or before 11:00 a.m. on Tuesday, 25 December 2018 (Hong Kong time)) or any adjournment of such meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy previously submitted shall be deemed to be revoked.

### RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the 2018 Supplemental Agreement and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps); (ii) the letter from IFA set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the foregoing matters, as well as the principal factors and reasons taken into account by IFA in arriving at its advice; and (iii) the additional information set out in the Appendix to this circular.

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## LETTER FROM THE BOARD

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The Directors (including the Independent Board Committee) are of the view that the terms and conditions of the 2018 Supplemental Agreement (including the pricing mechanism and procedures) and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements (including the pricing mechanism and procedures) and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps) are fair and reasonable and in the interests of the Shareholders (including the Independent Shareholders) as a whole, and such continuing connected transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM in the terms as set out in the notice of the EGM.

Yours faithfully,  
By Order of the Board  
**AUX International Holdings Limited**  
**Zheng Jiang**  
*Chairman*



**AUX INTERNATIONAL HOLDINGS LIMITED**

**奧克斯國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2080)**

11 December 2018

*To the Independent Shareholders*

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS:  
REVISION OF ANNUAL CAPS FOR PROVISION OF  
PROPERTY MANAGEMENT SERVICES  
UNDER EXISTING FRAMEWORK AGREEMENT  
AND  
NEW FRAMEWORK AGREEMENTS FOR PROVISION OF  
PROPERTY MANAGEMENT SERVICES**

We refer to the circular dated 11 December 2018 (the “Circular”) issued by the Company to the Shareholders of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular shall have the same meanings when used in this letter.

We have been appointed by the Board as the Independent Board Committee to consider and advise you as to whether, in our opinion, the terms and conditions of the 2018 Supplemental Agreement (including the pricing mechanism and procedures) and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements (including the pricing mechanism and procedures) and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps) are fair and reasonable, and such continuing connected transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholder as a whole, and how the Independent Shareholders should vote at the EGM, after taking into account the recommendation of the IFA.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Grand Moore Capital Limited has been appointed by the Board as the IFA to advise the Independent Board Committee and Independent Shareholders in connection with the foregoing matters. Details of the advice from the IFA, together with the reasons for its opinion, the key assumptions made and the factors taken into consideration in forming its opinion, are set out in its letter on pages 35 to 62 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 32 of the Circular and the additional information set out in the Appendix.

Having considered the terms and conditions of the 2016 Framework Agreement, the 2018 Supplemental Agreement and the 2018 Framework Agreements, the interests of the Independent Shareholders and the advice of the IFA, we are of the opinion that the terms and conditions of the 2018 Supplemental Agreement (including the pricing mechanism and procedures) and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements (including the pricing mechanism and procedures) and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps) are fair and reasonable and in the interests of the Shareholders as a whole, and such continuing connected transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM in the terms as set out in the notice of the EGM so as to approve the 2018 Supplemental Agreement and the continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps).

Yours faithfully

For and on behalf of

**The Independent Board Committee**

**Mr. Poon Chiu Kwok**

**Mr. Bau Siu Fung**

**Ms. Lou Aidong**

*Independent Non-executive Directors*

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## LETTER FROM THE IFA

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*The following is the full text of the letter of advice from Grand Moore Capital Limited to the Independent Board Committee and the Independent Shareholders, for the purpose of incorporation into this circular.*



中毅資本有限公司  
Grand Moore Capital Limited

Unit 1607, 16/F., Silvercord Tower 1, 30 Canton Road  
Tsim Sha Tsui, Kowloon, Hong Kong

11 December 2018

*To the Independent Board Committee and the Independent Shareholders  
of AUX International Holdings Limited*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS:  
REVISION OF ANNUAL CAPS FOR PROVISION OF  
PROPERTY MANAGEMENT SERVICES  
UNDER EXISTING FRAMEWORK AGREEMENT  
AND  
NEW FRAMEWORK AGREEMENTS FOR PROVISION OF  
PROPERTY MANAGEMENT SERVICES**

### INTRODUCTION

We refer to our engagement as the IFA to (i) advise the Independent Board Committee and the Independent Shareholders in respect of the Amended 2016 Framework Agreement and the continuing connected transactions contemplated thereunder (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps) (collectively, the “**Transactions**”); (ii) give our recommendation as to whether the Transactions are in the interest of the Company and the Shareholders as a whole; and (iii) advise the Shareholders on how to vote at the EGM. Details of the Transactions are set out in the section headed “Letter from the Board” (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 11 December 2018 (the “**CCT Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the CCT Circular, unless the context requires otherwise.

Reference is made to the Announcement and the Circular. On 7 November 2016, Ningbo AUX Property, an indirect wholly-owned subsidiary of the Company, and Ningbo AUX Real Estate entered into the 2016 Framework Agreement pursuant to which Ningbo AUX Property agreed to provide various property management services to Ningbo AUX Real Estate including the maintenance, cleaning and security services in connection with the residential development projects of Ningbo AUX Real Estate.

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## LETTER FROM THE IFA

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Given the recent business development of Ningbo AUX Real Estate and in particular the increase in the number of property development projects to be completed by Ningbo AUX Real Estate, the Company has reviewed the existing annual caps under the 2016 Framework Agreement for the year ending 31 December 2018 of RMB20.1 million and for the year ending 31 December 2019 of RMB17.4 million as approved at the extraordinary general meeting of the Company held on 20 March 2017 and it is expected that such annual caps will be exceeded.

Furthermore, Ningbo AUX Property entered into the 2018 Framework Agreement I and 2018 Framework Agreement II with AUX Group and Ningbo Sanxing respectively on 15 October 2018 for a term commencing on the date of approval by the Independent Shareholders at the EGM and ending on 31 December 2020.

Pursuant to the 2018 Framework Agreement I and 2018 Framework Agreement II, Ningbo AUX Property agrees to provide property management services to AUX Group and Ningbo Sanxing for offices, commercial properties and car park units occupied by them.

As such, the Company intends to seek approvals from the Independent Shareholders in respect of (i) the extension of the term of the 2016 Framework Agreement and the revision of the annual caps in respect of the transactions contemplated thereunder in accordance with the 2018 Supplemental Agreement; and (ii) the transactions contemplated under the 2018 Framework Agreements.

As at the Latest Practicable Date, Ningbo AUX Real Estate and AUX Group were companies each held as to 85% by Mr. Zheng Jian Jiang, a controlling shareholder of the Company indirectly holding approximately 58.66% of the total number of issued Shares. Ningbo Sanxing is a 30%-controlled company held by Mr. Zheng Jian Jiang. As such, Ningbo AUX Real Estate, AUX Group and Ningbo Sanxing are associates of Mr. Zheng Jian Jiang and connected persons of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Amended 2016 Framework Agreement and the 2018 Framework Agreements exceed(s) 5% and the relevant consideration exceeds HK\$10 million on an aggregate basis, the transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **THE INDEPENDENT BOARD COMMITTEE**

As at the Latest Practicable Date, the Independent Board Committee, comprising all of the Independent non-executive Directors of the Company, namely Mr. Poon Chiu Kwok, Mr. Bau Siu Fung and Ms. Lou Aidong, had been established to advise the Independent Shareholders on whether the Amended 2016 Framework Agreement, the 2018 Framework Agreements and the respective continuing connected transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

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## LETTER FROM THE IFA

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### OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions. In the last two years, we have not acted as any financial adviser role to the Company. Apart from normal professional fees paid or payable to us in connection with the current appointment as the IFA, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling shareholders that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the IFA in respect of the Transactions.

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the CCT Circular and the information and representations as provided to us by the Directors and the management of the Company. We have assumed that all information and representations that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the CCT Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the CCT Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the management of the Company (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the CCT Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Chapter 14A of the Listing Rules.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the CCT Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the CCT Circular have been arrived at after due and careful consideration and there are no other facts not contained in the CCT Circular, the omission of which would make any statement in the CCT Circular misleading.

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## LETTER FROM THE IFA

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We, as the IFA, take no responsibility for the contents of any part of the CCT Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Transactions, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. The Company has been separately advised by its own professional advisers with respect to the Transactions and the preparation of the CCT Circular (other than this letter).

We have assumed that the Transactions will be consummated in accordance with the terms and conditions set forth in the CCT Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Transactions, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Transactions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.



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## LETTER FROM THE IFA

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Transactions, we have taken into account the following principal factors:

#### 1. Background information of the parties to the Transactions

##### 1.1 Background information of the Group

As stated in the Letter from the Board, the Company is an investment holding company. The activities of its principal operating subsidiaries include operation of clubbing business in Hong Kong and provision of property management services in the PRC. Certain summary financial information of the Group as extracted from the Company's annual report for the year ended 31 March 2018 (the "Annual Report") is set out below.

	The year ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
	(audited)	(audited)
Revenue	268,237	102,802
(Loss) for the year	(25,517)	(28,803)

  

	As at 31 March	
	2018	2017
	HK\$'000	HK\$'000
	(audited)	(audited)
Total assets	431,650	145,229
Total liabilities	279,840	32,497
Net assets	151,810	112,732

During the year ended 31 March 2018, the Company recorded consolidated revenue of approximately HK\$268,237,000, representing an increase of approximately 160.9% when compared to the consolidated revenue of approximately HK\$102,802,000 recorded during the year ended 31 March 2017. The Annual Report attributes the increase in revenue primarily to the positive contribution bought in from the Group's newly acquired property management services business, which recorded a revenue of approximately HK\$167.3 million. The Company further recorded consolidated loss of approximately HK\$25,517,000 for the year ended 31 March 2018, representing a decrease of approximately 11.4% when compared to the consolidated loss of approximately HK\$28,803,000 recorded during the year ended 31 March 2017. The Annual

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## LETTER FROM THE IFA

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Report attributes the decrease in loss primarily to the net impact of the profit contribution from the property management segment of approximately HK\$16.4 million since the acquisition of Ningbo AUX Property, which outweighs the increase in impairment losses recognized for the clubbing business of HK\$1.3 million and the increase in net exchange loss of HK\$6.4 million and advertising and marketing expenses of approximately HK\$3.7 million.

It is stated in the Annual Report that the Group sees both challenges and opportunities in the coming year for the property management business, and aims to create brand advantages in its property management services segment through better service quality and enriching its service packages with the vision to provide “beautiful living environment for caring and comfortable life” to its customers.

As at 31 March 2018, the Group had total assets, total liabilities and net assets of approximately HK\$431,650,000, HK\$279,840,000 and HK\$151,810,000 respectively.

### ***1.2 Background information of AUX Group***

AUX Group is a well-known conglomerate with business in manufacturing of electrical and household appliance, health care and finance investment. As at the Latest Practicable Date, AUX Group is a company held as to 85% by Mr. Zheng Jian Jiang, a controlling shareholder of the Company indirectly holding approximately 58.66% of the total number of issued Shares.

### ***1.3 Background information of Ningbo AUX Real Estate***

Ningbo AUX Real Estate is principally engaged in property development for residential and commercial properties in the PRC. As at the Latest Practicable Date, Ningbo AUX Real Estate is a company held as to 85% by Mr. Zheng Jian Jiang.

### ***1.4 Background information of Ningbo Sanxing***

Ningbo Sanxing is a joint stock limited liability company established in the PRC, the issued Shares of which are listed on the Shanghai Stock Exchange. Its principal operations include manufacturing of electricity measurement equipment and provision of healthcare services in the PRC. Ningbo Sanxing is a 30%-controlled company held by Mr. Zheng Jian Jiang.

**2. Reasons for and benefits of the 2018 Supplemental Agreement and the 2018 Framework Agreements**

It is stated in the Letter from the Board that the Group currently operates two clubs, namely the Magnum Club and Zentral with a span of over 20,000 square feet in the heart of the Lan Kwai Fong area.

Zentral is currently in operation and had generated revenue amounting to approximately HK\$83.4 million and HK\$42.4 million for the year ended 31 March 2018 and the six months ended 30 September 2018 respectively, representing approximately 82.7% and 100% of the revenue from the clubbing business segment of the Group during the corresponding period.

As the performance of the clubbing business segment has been less than optimistic in recent years, the Group endeavors to enhance the clubs' appeal to its customer and announced its plan to renovate Magnum Club with effect from 14 January 2018. As such, the Magnum Club has been temporarily closed since then, which resulted in significant decrease in the revenue contribution from the Magnum Club to the Group. The revenue generated by Magnum Club during the year ended 31 March 2018 amounted to approximately HK\$17.5 million, representing approximately 17.3% of the revenue of the Group from the clubbing business segment during the financial year, and no revenue had been recorded during the six months ended 30 September 2018. The renovation was initially expected to take approximately 8 months to complete. However, due to, among others, in the additional time required for obtaining relevant approvals from the Buildings Department and the Fire Services Department in respect of certain renovation works of the Magnum Club, the reopening of the Magnum Club has been postponed. It is currently expected that the Mangum Club will reopen before Christmas this year.

The Directors believe that upon completion of the renovation works, the Magnum Club will be able to offer renewed and enhanced clubbing experiences which match the prevailing preferences and expectations of the customers and sustain its position as the clubbing venue of choice among local and foreign clubbers notwithstanding the opening of certain new clubs in the surrounding area. As such, the Directors expect that the forthcoming reopening of the Magnum Club will enhance the Group's brand as a leading entertainment service provider in the Lan Kwai Fong and bring organic growth momentum to the Group's clubbing business segment. Apart from that, the Group will continue its search for opportunities to improve the clubbing business segment's performance in the future.

In view of the short-term financial impact the temporary closure of Magnum Club may have on the Group's performance, it is vital that the Group maintains stable and sustainable revenue and cash flow from its property management business segment, so as to avoid any significant fluctuation in the overall revenue and cash flow of the Group.

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## LETTER FROM THE IFA

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Ningbo AUX Real Estate, as an established business partner of Ningbo AUX Property, has shown its growth momentum in the last 12 months with its total land bank increasing from approximately 2.28 million sq.m. around the time the 2016 Framework Agreement was signed to approximately 2.91 million sq.m. as at the Latest Practicable Date.

Hence, the Directors are of the view that the entering into of the 2018 Supplemental Agreement and the 2018 Framework Agreements will enable Ningbo AUX Property and the Group as a whole to benefit from the recent growth of Ningbo AUX Real Estate and provide stable demand for the Company's property management business segment. As such, the Directors believe that the entering into of the 2018 Supplemental Agreement and the 2018 Framework Agreements will help to reduce the impact on the financial performance of the Group while Magnum Club remains closed for renovation, ensure the Group will have sufficient financial resources to achieve healthy and sustainable development of both its clubbing business and property management business, and contribute to the business growth of the Group as a whole in the long run.

AUX Group is a well-known conglomerate with business in manufacturing of electrical and household appliance, health care and finance investment. AUX Group owns and maintains number of offices and car park units in different cities.

Ningbo Sanxing, the shares of which are listed on the Shanghai Stock Exchange, operates in the electricity measurement industry in PRC. In addition to the offices and car parks occupied by Ningbo Sanxing, it also owns and operates several industrial parks across the country.

The Directors are of the view that the entering into of the 2018 Framework Agreement I and II will enable Ningbo AUX Property to establish its business in office property management services and build up a solid foundation for providing extensive property management services to AUX Group and Ningbo Sanxing when opportunity arise.

Notwithstanding the existing and proposed continuing connected transactions under the Amended 2016 Framework Agreement and the 2018 Framework Agreements, the Directors do not consider that the Group will unduly rely on its connected persons in its business and operations. The table below sets forth a breakdown of the number of service contracts valid and existing as at 30 September 2018 and the expected number of service contracts valid and existing as at 31 March 2019 (on the assumption that the 2018 Supplemental Agreement and the 2018 Framework Agreements will be approved by the Independent Shareholders at the

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**LETTER FROM THE IFA**

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EGM and new service contracts will be entered into with the respective connected persons of the Company under the Amended 2016 Framework Agreement and the 2018 Framework Agreements):

	<b>As at 30 September 2018</b>		<b>As at 31 March 2019</b>	
	<b>Number</b>	<b>Percentage</b>	<b>Number</b>	<b>Percentage</b>
Service contracts with				
• connected persons of the Company	49	0.1%	57	0.1%
• independent third parties	<u>36,577</u>	<u>99.9%</u>	<u>38,165</u>	<u>99.9%</u>
All valid and existing property management service contracts	<u><u>36,626</u></u>	<u><u>100.0%</u></u>	<u><u>38,222</u></u>	<u><u>100.0%</u></u>

The table below sets forth a breakdown of the revenue for the six months ended 30 September 2018 and the forecast total revenue for the year ending 31 March 2019 (on the assumption that the 2018 Supplemental Agreement and the 2018 Framework Agreements will be approved by the Independent Shareholders at the EGM and new service contracts will be entered into with the respective connected persons of the Company under the Amended 2016 Framework Agreement and the 2018 Framework Agreements) of the property management business segment of the Group:

	<b>Six months ended 30 September 2018</b>		<b>Year ending 31 March 2019</b>	
	<b>Amount</b>	<b>Percentage</b>	<b>Amount</b>	<b>Percentage</b>
	<i>HK\$'000</i>		<i>HK\$'000</i>	
Revenue contributed/expected to be contributed by				
• connected persons of the Company	21,461	20.1%	59,435	24.5%
• independent third parties	<u>85,298</u>	<u>79.9%</u>	<u>184,006</u>	<u>75.5%</u>
Total revenue of the property management business segment	<u><u>106,759</u></u>	<u><u>100.0%</u></u>	<u><u>243,441</u></u>	<u><u>100.0%</u></u>

As shown by the tables above, the customers of the Group in its property management business have predominantly been, and are expected to continue to predominantly be independent third parties in terms of the number of valid and existing property management service contracts, and the independent third parties customers had contributed approximately 79.9% of the total revenue of the property management business segment of the Group during the six months ended 30 September 2018 and are expected to contribute approximately 75.5% of the total revenue for the

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## LETTER FROM THE IFA

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year ending 31 March 2019 even taking into account the continuing connected transactions contemplated under the Amended 2016 Framework Agreement and the 2018 Framework Agreements.

It is expected that the entering into of the 2018 Supplemental Agreement will not result in any material change to the respective revenue contribution of connected persons and independent third parties in the property management business segment of the Group. Under the Amended 2016 Framework Agreement, Ningbo AUX Property will gain access to more potential independent third party customers, being the owners of the residential properties developed and sold by Ningbo AUX Real Estate from time to time. With its reputation and experience in providing property management services, the Directors believe that the Group will be able to capture such business opportunities and expand its customer base by providing property management services to such owners of sold residential properties directly. As such, not only will the Group record additional revenue through the continuing connected transactions contemplated under the Amended 2016 Framework Agreement, but the Group will also be able to build business relationships with new independent third parties customers, i.e. the owners of the sold residential properties, which will further generate additional revenue for the Group on a continual basis.

Leveraging the resources of the connected persons and the brand image and awareness and the portfolio of managed properties established through the continuing connected transactions, the Group will actively seek to expand its customer base. The above is but one way in which such expansion is intended to be achieved in the property management business segment. The Directors believe that the proportion of independent third party customers in the Group's customer base and their revenue contribution will remain at a predominant level in the future. The Directors are of the view that the existing and proposed continuing connected transactions under the Amended 2016 Framework Agreement and the 2018 Framework Agreements will not give rise to any excessive reliance of the Group on the connected persons of the Company and the Group will be able to carry on its business independently in a viable and sustainable manner.

Except for Mr. Zheng Jiang, the chairman of the Board and an Executive Director who is the brother of Mr. Zheng Jian Jiang, and Ms. Shen Guoying, an executive Director who is a director of Ningbo Sanxing, none of the Directors has or is deemed to have a material interest in the 2018 Supplemental Agreement and the transactions contemplated thereunder (including the proposed Amended 2016 Framework Agreement Annual Caps) and the 2018 Framework Agreements and the transactions contemplated thereunder (including their respective proposed annual caps). Mr. Zheng Jiang and Ms. Shen Guoying have abstained from voting on the relevant resolutions at the board meeting.

The terms and conditions of the 2018 Supplemental Agreement and the 2018 Framework Agreements were negotiated between the parties thereto and on arm's length basis. The Directors are of the view that the terms and conditions of the 2018 Supplemental Agreement (including the pricing mechanism and procedures) and the

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## LETTER FROM THE IFA

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continuing connected transactions contemplated under the Amended 2016 Framework Agreement (including the proposed Amended 2016 Framework Agreement Annual Caps), and the 2018 Framework Agreements (including the pricing mechanism and procedures) and the continuing connected transactions contemplated thereunder (including their respective proposed annual caps) are fair and reasonable and in the interests of the Shareholders as a whole, and such continuing connected transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

Having considered the above, we understand from note 4 to the financial statements accompanying the Annual Report that during the year ended 31 March 2018, segment revenue contributed by the property management business is approximately HK\$167,347,000, representing approximately 62.4% (2017: 0.0%) of the Company's consolidated revenue of approximately HK\$268,237,000 recorded in the same year. It is noted from the Annual Report that acquisition of Ningbo AUX Property by the Group was completed in May 2017 so it did not make any contribution to the Group during the year ended 31 March 2017. In view of the already significant contribution from the property management business in only its first year of consolidation into the Group's financial statements (i.e. the year ended 31 March 2018) and the temporary closure of the Magnum as discussed above, we concur with the Director's view that it is beneficial for the Group to enter into the 2018 Supplemental Agreement and the 2018 Framework Agreements.

### 3. The Amended 2016 Framework Agreement

#### 3.1 *The principal terms*

As extracted from the Letter from the Board, a summary of the 2016 Framework Agreement as amended by the 2018 Supplemental Agreement is set forth below:

Date:	15 October 2018
Parties:	(1) Ningbo AUX Property (2) Ningbo AUX Real Estate (for itself and as trustee for the benefit of its subsidiaries from time to time)
Term of the agreement:	Subject to the approval by the Independent Shareholders at the EGM, the Amended 2016 Framework Agreement shall be effective until 31 December 2020.

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## LETTER FROM THE IFA

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Type of services, pricing policies and payment for services fees: Ningbo AUX Property shall be commissioned to provide various property management services including the maintenance, cleaning and security services in connection with the development projects of residential properties and shopping complexes launched from time to time by Ningbo AUX Real Estate and its subsidiaries and associates. Ningbo AUX Property will provide Unsold Residential Units Property Management Services to completed property development projects of Ningbo AUX Real Estate. Pre-sale Management Service and Sales Offices Management services will be provided to each development project according to their development phase and sales situation. Vacant Retail Shop Property Management Services will be provided to existing shopping complexes owned by Ningbo AUX Real Estate. The types of services and their respective pricing policies and payment as summarised below:

**a. Pre-sale Management Service**

Scope of services: Management and maintenance of residential properties and facilities of property development projects of Ningbo AUX Real Estate before delivery

It is currently expected that Ningbo AUX Real Estate will deliver around 4, 8 and 8 property development projects in the years ending 31 December 2018, 2019 and 2020, respectively.



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## LETTER FROM THE IFA

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Pricing policy: In respect of property development projects in Ningbo, the price shall be determined by reference to the pricing requirements prescribed by the relevant local regulations from time to time for different types of property development projects (e.g. Notice of the Ningbo Pricing Regulation on Pre-Sale Property management services). In other cities, considering they are all tier-2 cities in PRC similar to Ningbo in terms of size and nature of property projects, in the absence of any pricing requirement from time to time prescribed by local government, prices will be determined based on the prices in Ningbo. Except for Ningbo, the prevailing markets prices in cities where the relevant property development projects are located are currently not prescribed by the local governments.

The Group will also take into account the expected operational costs and the anticipated increase in such costs to be involved when it decides to enter into specific agreements for each development project.

Payment term: Payment shall be made annually, half yearly, quarterly or monthly (as the case may be) pursuant to the relevant terms of the specific agreements to be entered into.

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## LETTER FROM THE IFA

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### **b. Sales Offices Management Services**

Scope of services: Cleaning, security and customer services at the sales offices and showrooms in the property development projects

Pricing Policy: The prices will be determined and charged based on the actual cost relating to provision of management service plus a rate of management fee to be agreed under the specific agreement for the property agreement for the property development project (which shall in any event be not less than 10%, being the minimum rate generally charged by other independent service providers in the market, and shall be on terms not more favourable to Ningbo AUX Real Estate than those then offered by Ningbo AUX Property to independent third parties for comparable services).

The Group will also take into account the then prevailing market price, the historical and anticipated property management costs including labour costs and material costs.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreements to be entered into.

### **c. Unsold Residential Units Property Management Services**

Scope of services: Maintaining and cleaning of unsold residential units

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## LETTER FROM THE IFA

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Pricing policy: The prices will be agreed with the property developer and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for sold property units of independent third parties, ranging from RMB1.8 to RMB8.5 per square meter per month depending on the location and nature of the properties (for example different rates are charged to high-rise, condo and villa), and shall be on terms not more favourable to Ningbo AUX Real Estate than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fees have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreements to be entered into.

### **d. Vacant Retail Shop Property Management Services**

Scope of services: Maintaining and cleaning of vacant retail shop units

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## LETTER FROM THE IFA

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Pricing policy: The prices will be agreed with the property owner and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for shop units rented to independent third parties, ranging from RMB5.0 to RMB65.0 per square meter per month depending on the location of the vacant shop unit (for example, different rates are charged to anchor shop and ground floor shop), and shall be on terms not more favourable to Ningbo AUX Real Estate than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fees have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreements to be entered into.

Specific agreements: For each property development project and shopping complex of Ningbo AUX Real Estate which requires the property management services under the Amended 2016 Framework Agreement, Ningbo AUX Real Estate and Ningbo AUX Property will (directly or through their respective subsidiaries or branches) enter into a specific agreement setting out the specific scope of services required and amount of fees payable in conformity with the terms (including the pricing policy mentioned above) set out in the Amended 2016 Framework Agreement.

All transactions contemplated under the Amended 2016 Framework Agreement shall be conducted on normal commercial terms and negotiated on arm's length basis.

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## LETTER FROM THE IFA

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As mentioned in the Letter from the Board, Ningbo AUX Property and Ningbo AUX Real Estate entered into the 2018 Supplement Agreement for the years ending 31 December, proposing to (i) increase the annual caps for the years ending 31 December 2018 and 2019 to RMB30.0 million and RMB47.7 million, respectively; (ii) the scope of property management services shall be extended to include vacant retail shop property management services to be provided to existing shopping complexes owned by Ningbo AUX Real Estate; and (iii) to extend the annual caps of the 2016 Framework Agreement to the year ending 31 December 2020 as RMB55.6 million. Save as above, all existing principal terms and conditions of the 2016 Framework Agreement will remain unchanged.

### *3.2 Our analysis regarding the Amended 2016 Framework Agreement*

We have reviewed contracts of each type of service under the Amended 2016 Framework Agreement. Where applicable, we have also reviewed the guidance on property management fee settlement mechanism issued by local governments and compared contract terms with ones under contracts entered into by the independent third parties.

We were informed by the management of the Company that the pricing terms of the Pre-sale Management Service are determined with reference to the Notice of the Ningbo Pricing Regulation on Pre-sale Property Management Services (《關於印發寧波市住宅社區物業管理條例實施意見》) issued by Ningbo Municipal Commission of Construction (寧波市建設委員會) in June 2010 (“**Ningbo Pricing Regulation**”). According to the Ningbo Pricing Regulation, the pricing basis for pre-sale property management services of different property projects are RMB7.0 per square meter for low-rise buildings, RMB9.0 per square meter for mid-rise buildings and RMB11.0 per square meter for high-rise buildings. We have independently searched and reviewed the details of Ningbo Pricing Regulation and the contracts under Pre-sale Management Service in respect of the properties in Ningbo, we noted that the terms in those contracts are in line with Ningbo Pricing Regulation. The Ningbo Pricing Regulation is an established and recognised regulation with standardized pricing basis. We have discussed with the management of the Company and based on their understanding, there is no pricing regulation issued by the local government of other cities that Company has operation. Therefore, the Company would consider if appropriate to make reference to Ningbo Pricing Regulation in determining the pricing terms of the Pre-sale Management Service in other cities. Since majority of the revenue of Pre-sale Management Service is expected to be generated from cities in the same tier with Ningbo or lower and the Company has applied an established and recognised regulation promulgated by the relevant authority in Ningbo (which is an independent third party to the Group) as their pricing basis given that there is no pricing regulation issued by the local government of other cities that Company has operation, we are of the view that the pricing basis for Pre-sale Management Service of the Company is reasonable.

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## LETTER FROM THE IFA

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In respect of the Sales Offices Management Services, the Company generally determines the fees for the Sales Offices Management Services on a “cost-plus” basis which is principally determined by a level of markup percentage on the direct labour cost incurred in providing the management services to the sales offices. The markup percentage based on the direct labour cost as calculated in contracts under the Sales Offices Management Services is 10.0%. We have obtained from the Company and reviewed similar contracts of other independent third party service providers in connection with services similar to the Sales Offices Management Services, and note that the markup range from 8.0% to 10.0%. The markup percentage in the Company’s contracts under the Sales Offices Management Services is accordingly at or above the market range. We are of the view that the markup percentage and cost-plus basis are on normal commercial terms under the Sales Offices Management Services.

For the Unsold Residential Units Property Management Services, we have reviewed the contracts entered into between the Company and other independent third parties (i.e. property owners who have purchased the relevant properties) in relation to the residential unit property management services. We have also noted that the unit price of the management services fees charged to the owners of those sold residential units and the unit price of the management services fees charged to the Ningbo AUX Real Estate under the Unsold Residential Units Property Management Services are at the same level for properties with the same location and nature. We have also reviewed the contracts under the Unsold Residential Units Property Management Services which are in line with the price range in the Amended 2016 Framework Agreement. We are of the view that the pricing policy and fee levels under the Unsold Residential Units Property Management Services are on normal commercial terms.

For the Vacant Retail Shop Property Management Services, we have reviewed the contracts entered into between the Company and other independent third parties (i.e. property owners who have purchased the relevant properties) in relation to the retail shop property management services. According to the management of the Company, the unit price of the management services fees charged to Ningbo AUX Real Estate on those vacant retail shops are at the same level with the unit price of the management services fees charged to the other independent property owners for properties with the same location and nature. We have also reviewed that the contracts under the Vacant Retail Shop Property Management Services are in line with the price range in the Amended 2016 Framework Agreement. We are of the view that the pricing policy and fee levels under the Vacant Retail Shop Property Management Services are on normal commercial terms.

We have discussed with the management of the Company in relation to the basis of major terms, such as pricing terms and settlement terms in the contracts under the Amended 2016 Framework Agreement. After having conducted the

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## LETTER FROM THE IFA

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aforementioned works, we are of the view that the terms of the Amended 2016 Framework Agreement are fair and reasonable and in the interest of the Shareholders and the Company as a whole.

In addition, we have reviewed the internal control measures as mentioned under the section headed “Measures of internal control” in the Letter from the Board for monitoring the pricing and terms of the transactions contemplated under the Amended 2016 Framework Agreement and for ensuring that the transactions conducted under such agreement are entered into based on normal commercial terms. We noticed that the Company will make reference to property management fees for comparable services for comparable properties (where references will be made (where applicable) to the property management fees charged by Ningbo AUX Property to independent third parties for comparable services for comparable properties and the other relevant contract terms in respect thereof and by way of performing research on the recent prices charged by at least two independent service providers in the area(s) in proximity of the new projects by referring to the properties located in the same or nearby streets/complex, similar-sized properties and services prices charged on those properties, etc. and a report on the above will be prepared afterwards) and/or pricing requirement(s) prescribed by the relevant local regulation(s) and guidance price(s) stipulated by local authority(ies).

The Company will also monitor the implementation of the specific agreements under the Amended 2016 Framework Agreement to ensure the terms are strictly adhered to by the parties to the agreements. The pricing terms of on-going projects will be monitored by the finance department of the Company to ensure the terms strictly adhere to the 2016 Framework Agreement and 2018 Supplemental Agreement. The finance department of the Company will also monitor the transaction amount on a monthly basis to ensure the annual caps will not be exceeded. We have conducted the aforementioned works with regards to review of relevant historical contracts and did not notice anything out of the ordinary. In addition, it is discussed in section 3.3 of this letter that the Group and Ningbo AUX Real Estate had voluntarily slowed down the commencement of new projects subject to the Amended 2016 Framework Agreement so as to control the transaction amount before the revised annual cap can be approved. The voluntary control of the transaction amount is a demonstration of the effectiveness of the internal control procedures adopted by the Group in respect of such continuing connected transactions. Accordingly, we are of the view that procedures aforementioned to be implemented can effectively ensure that the transactions under the Amended 2016 Framework Agreement are entered into based on normal commercial terms.

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**LETTER FROM THE IFA**

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**3.3 Historical information and annual caps of transactions under the Amended 2016 Framework Agreement**

The following table sets out the amount of previous continuing connected transactions between Ningbo AUX Property and Ningbo AUX Real Estate under the 2016 Framework Agreement:

	<b>For the year ended 31 December 2017</b>	<b>For the year ending 31 December 2018</b>	<b>For the year ending 31 December 2019</b>
	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>
Annual caps	34.0	20.1	17.4
Historical transaction recorded	15.5 <i>(note 1)</i>	18.8 <i>(note 2)</i>	N/A
Utilisation rate	45.5%	93.5%	N/A

The annual caps for the year ending 31 December 2018 and for the year ending 31 December 2019 under the 2016 Framework Agreement, as well as the new proposed annual caps for the years ending 31 December 2018, for the year ending 31 December 2019 and for the year ending 31 December 2020 under the Amended 2016 Framework Agreement are set out below:

*Proposed revised annual caps*

	<b>For the year ending 31 December 2018</b>	<b>For the year ending 31 December 2019</b>	<b>For the year ending 31 December 2020</b>
	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>
Annual caps under the 2016 Framework Agreement	20.1	17.4	N/A
Amended 2016 Framework Agreement Annual Caps	30.0	47.7	55.6

*Notes:*

- Actual fees charged by Ningbo AUX Property for the period from 5 May 2017 to 31 December 2017.
- Based on the unaudited consolidated management accounts of the Group for the period from 1 January 2018 to 31 October 2018.



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## LETTER FROM THE IFA

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To assess the reasonableness of the proposed Amended 2016 Framework Agreement Annual Caps under the 2018 Supplement Agreement, we have carried out certain steps including the followings:

We have discussed with the management of the Company and learnt that based on Ningbo AUX Real Estate's recent success in land tender, its total land bank increased from approximately 2.28 million sq.m. around the time the 2016 Framework Agreement was signed to approximately 2.91 million sq.m. as at the Latest Practicable Date. Ningbo AUX Real Estate's expected demand for Ningbo AUX Property's property management services has increased for the years ending 31 December 2018, 2019 and 2020 due to the new development projects. We further reviewed the project development schedule of Ningbo AUX Property from 2018 to 2020 as provided by management of the Company and noticed that the revenue generated from the services under the 2016 Framework Agreement and 2018 Supplemental Agreement will increase gradually from 2018 to 2020. We have also reviewed that the historical transaction recorded and the utilization rate on the period from 1 January 2018 to 31 October 2018 were approximately RMB18.8 million and 93.5%. As such, the proposed Amended 2016 Framework Agreement Annual Caps are consistent with the management estimation of the amounts of potential continuing connected transactions (which had been confirmed by the Company and AUX Real Estate) and are in line with the project development schedule from 2018 to 2020. The proposed revised annual caps will be approximately RMB30.0 million, RMB47.7 million and RMB55.6 million for the three years ending 31 December 2020.

Furthermore, if we take the historical transaction volume of approximately RMB18.8 million for the period from 1 January 2018 to 31 October 2018 and annualize it, we would arrive at an annualized estimation of approximately RMB22.6 million for the year ending 31 December 2018 (the "**2018 Annualized Estimation**"). Such 2018 Annualized Estimation represents an approximately 45.8% increase over the historical transaction volume of approximately RMB15.5 million recorded for the year ended 31 December 2017. We further note that the Amended 2016 Framework Agreement Annual Caps for the year ending 31 December 2018 represents a significant difference over the historical transaction volume for the period from 1 January 2018 to 31 October 2018. Such difference is mainly due to a voluntary change in demand of Ningbo AUX Real Estate for the relevant services as a result of a voluntary change in development plan. In around mid-2018, the management of the Company recognized the actual connected transaction amount was gradually approaching the maximum amount of the originally approved 2018 annual cap of RMB20.1 million. In view of the aforementioned situation, the Group and Ningbo AUX Real Estate had voluntarily slowed down the commencement of new projects subject to the Amended 2016 Framework Agreement so as to control the transaction amount before the revised annual cap can be approved. Based on information we have obtained from the Company, most of those new projects are pre-sale management services for property development projects and the Group has the capacity and resources to provide the services in a short period of time. If and when the

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## LETTER FROM THE IFA

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Amended 2016 Framework Agreement Annual Caps have been approved at the EGM, the Company and Ningbo AUX Real Estate can immediately kick off those projects resulting in a disproportionately higher level of revenue in the remaining periods at the end of 2018 when compared to the earlier periods in 2018. We have obtained the project list confirmed by the Company and Ningbo AUX Real Estate which are in line with the Amended 2016 Framework Agreement Annual Caps for the year ending 31 December 2018 demonstrating that the revised annual caps (which is of a revenue nature to the Group) can indeed be achieved. In addition, it is noted that (i) the Amended 2016 Framework Agreement Annual Caps for the year ending 31 December 2019 of approximately RMB47.7 million represents an approximately 59.0% increase over that for the year ending 31 December 2018; and (ii) the Amended 2016 Framework Agreement Annual Caps for the year ending 31 December 2020 of approximately RMB55.6 million represents an approximately 16.6% increase over that for the year ending 31 December 2019.

In view of (i) the transactions under the Amended 2016 Framework Agreement Annual Caps are of a revenue nature to the Group; (ii) the estimated transaction volumes are agreed by Ningbo AUX Real Estate and to facilitate Ningbo AUX Real Estate's procurement of the relevant services from Ningbo AUX Property; (iii) the pricing basis of the relevant transactions are fair and reasonable as discussed in section 3.2 of this letter; (iv) we have performed works (such as obtaining confirmation from the relevant parties that the relevant amounts have been agreed and reviewing information such as the new project list that can be kicked off towards the end of 2018) to illustrate that the Amended 2016 Framework Agreement Annual Caps for the year ending 31 December 2018 is expected to be achievable despite the significant increase over the historical amounts recorded during the ten months ended 31 October 2018; (v) although the approximately 59.0% increase of the Amended 2016 Framework Agreement Annual Caps for the year ending 31 December 2019 over that for the year ending 31 December 2018 is higher than the 45.8% increase of the 2018 Annualized Estimation over the historical transaction volume for the year ended 31 December 2017, we have performed works (such as obtaining confirmation from the relevant parties that the relevant amounts have been agreed and reviewing information such as the new project list) to illustrate that the Amended 2016 Framework Agreement Annual Caps for the year ending 31 December 2019 is expected to be achievable; (vi) the approximately 16.6% increase of the Amended 2016 Framework Agreement Annual Caps for the year ending 31 December 2020 over that for the year ending 31 December 2019 is within the 45.8% increase of the 2018 Annualized Estimation over the historical transaction volume for the year ended 31 December 2017; and (vii) if the Amended 2016 Framework Agreement Annual Caps are set at an insufficient level to satisfy the estimated transaction amount (similar to the currently insufficient original annual cap for the year ending 31 December 2018), the Company will need voluntarily control the transaction amounts (which would result in a negative impact on its revenue) until revised annual caps can be approved during which additional costs (such as publishing an announcement, dispatching a circular, appointing professional parties, holding another extraordinary general meeting, etc.) to revise the annual

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## LETTER FROM THE IFA

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caps will be incurred at a later stage, we are of the view that the Amended 2016 Framework Agreement Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

#### 4. The 2018 Framework Agreements

##### *4.1 The 2018 Framework Agreement I*

A summary of the principal terms of the 2018 Framework Agreement I as extracted from the Letter from the Board is as follows:

Date:	15 October 2018
Parties:	(1) Ningbo AUX Property  (2) AUX Group (for itself and as trustee for the benefit of its subsidiaries from time to time)
Term of the agreement:	Subject to the approval by the Independent Shareholders at the EGM, the 2018 Framework Agreement I shall be effective a term commencing on the date of approval by the Independent Shareholders at the EGM and ending on 31 December 2020.
Type of services, pricing policies and payment for services fees:	Ningbo AUX Property shall be commissioned to provide property management services including the maintenance, cleaning and security services in connection with the offices, car park units and commercial units occupied by AUX Group and its subsidiaries and associates with the types of services and their respective pricing policies and payment as summarised below:  <b>a. Office and Commercial Property Management Services</b>  Scope of services: Maintenance and cleaning of office and commercial properties occupied by AUX Group and its subsidiaries and associates.

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## LETTER FROM THE IFA

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Pricing policy: The prices will be agreed with AUX Group and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for office units and commercial properties leased by independent third parties, ranging from RMB3.5 to RMB6.0 per square meter per month, depending on the location and nature of the properties (for example different rates are charged to offices in Ningbo and Hangzhou), and shall be on terms not more favourable to AUX Group than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fees have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreements to be entered into.

### **b. Car Park Management Services**

Scope of services: Maintenance and cleaning of car park units occupied by AUX Group and its subsidiaries and associates.

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## LETTER FROM THE IFA

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Pricing policy: The prices will be agreed with AUX Group and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for car park units leased by independent third parties, ranging from RMB40 to RMB80 per unit per month, depending on the location of the car park units (for example, different rates are charged to carparks in Ningbo and Hangzhou), and shall be on terms not more favourable to AUX Group than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fee have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreement to be entered into.

### ***4.2 Our analysis regarding the 2018 Framework Agreement I***

We have reviewed contracts of each type of service under the 2018 Framework Agreement I. We have compared contract terms with contracts entered into the independent third parties.

For the Office and Commercial Property Management Service and Car Park Management Service, the unit prices will be in a range depending on the unit prices of other units with the same location and nature leased by independent third party. We have reviewed the contracts entered into between the Company and other independent third parties in relation to the management services. We have reviewed the contracts entered into between Ningbo AUX Property and other independent third parties which are in line with the price range under the 2018 Framework Agreement I. The internal control procedures as mentioned under the section headed “Measures of internal control” in the Letter from the Board can also effectively maintain the fairness of the price range. We have also

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## LETTER FROM THE IFA

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reviewed the prices of the contracts signed with the independent third parties are within the price range in the 2018 Framework Agreement I. We are of the view that the pricing policy and fee levels under the Office and Commercial Property Management Service and Car Park Management Service are on normal commercial terms.

We have discussed with the management of the Company in relation to the basis of major terms, such as pricing terms and settlement terms in the contracts under the 2018 Framework Agreement I. After having conducted the aforementioned works, we are of the view that the terms of the 2018 Framework Agreement I are fair and reasonable and in the interest of the Shareholders and the Company as a whole.

### ***4.3 2018 Framework Agreement II***

A summary of the principal terms of the 2018 Framework Agreement II is as follows:

Date:	15 October 2018
Parties:	(1) Ningbo AUX Property  (2) Ningbo Sanxing (for itself and as trustee for the benefit of its subsidiaries from time to time)
Term of the agreement:	Subject to the approval by the Independent Shareholders at the EGM, the 2018 Framework Agreement II shall be effective for a term commencing on the date of approval by the Independent Shareholders at the EGM and ending on 31 December 2020.
Type of services, pricing policies and payment for services fees:	Ningbo AUX Property shall be commissioned to provide property management services including the maintenance, cleaning and security services in connection with the offices and car park units occupied by Ningbo Sanxing and its subsidiaries and associates with the types of services and their respective pricing policies and payment as summarised below:

#### **a. Office Property Management Services**

Scope of services: Maintenance and cleaning of offices occupied by Ningbo Sanxing and its subsidiaries and associates.

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## LETTER FROM THE IFA

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Pricing policy: The prices will be agreed with Ningbo Sanxing and shall be based on the prevailing rates of management fees charged by independent third parties for offices leased by independent third parties, ranging from RMB4.5 to RMB6 per square meter per month, depending on the location of the properties (for example, different rates are charged to offices in Ningbo and Hangzhou), and shall be on terms not more favourable to Ningbo Sanxing than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fees have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreement to be entered into.

### **b. Car Park Management Services**

Scope of services: Maintenance and cleaning of car park units occupied by Ningbo Sanxing and its subsidiaries and associates.

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## LETTER FROM THE IFA

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Pricing policy: The prices will be agreed with Ningbo Sanxing and shall be based on the prevailing rates of management fees charged by Ningbo AUX Property for car park units leased by independent third parties, ranging from RMB50 to RMB80 per unit per month, depending on the location of the car park units (for example, different rates are charged to carparks in Ningbo and Hangzhou), and shall be on terms not more favourable to Ningbo Sanxing than those offered by Ningbo AUX Property to independent third parties for comparable services.

Such rates of management fee have been adopted by the Group based on the prevailing market rates offered for provision of comparable services.

Payment term: Payment shall be made monthly pursuant to the terms of the specific agreement to be entered into.

#### ***4.4 Our analysis regarding the 2018 Framework Agreement II***

We have reviewed contracts of each type of service under the 2018 Framework Agreement II. We have compared contract terms with contracts entered into the independent third parties.

For the Office Property Management Services and Car Park Management Services, the unit prices will be in a range depending on the unit prices of other units with the same location and nature leased by independent third party. We have reviewed the contracts entered into between the Company and other independent third parties in relation to the management services. We have reviewed the contracts entered into between Ningbo AUX Property and other independent third parties which are in line with the price range under the 2018 Framework Agreement II. The internal control procedures as mentioned under the section headed “Measures of internal control” in the Letter from the Board



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can also effectively maintain the fairness of the price range. We are of the view that the pricing policy and fee levels under the Office Property Management Services and Car Park Management Services are on normal commercial terms.

We have discussed with the management of the Company in relation to the basis of major terms, such as pricing terms and settlement terms in the contracts under the 2018 Framework Agreement II. After having conducted the aforementioned works, we are of the view that the terms of the 2018 Framework Agreement II are fair and reasonable and in the interest of the Shareholders and the Company as a whole.

#### *4.5 The proposed annual caps under the 2018 Framework Agreements*

The proposed annual caps for the continuing connected transactions contemplated under the 2018 Framework Agreements for the three years ending 31 December 2018, 2019 and 2020 (the “**2018 Framework Agreements Annual Caps**”) are set out as follows:

##### *The proposed annual caps under the 2018 Framework Agreement I*

	<b>Year ending 31 December 2018 (Note) RMB million</b>	<b>Year ending 31 December 2019 RMB million</b>	<b>Year ending 31 December 2020 RMB million</b>
Annual Caps	0.3	3.7	3.7

##### *The proposed annual caps under the 2018 Framework Agreement II*

	<b>Year ending 31 December 2018 (Note) RMB million</b>	<b>Year ending 31 December 2019 RMB million</b>	<b>Year ending 31 December 2020 RMB million</b>
Annual Caps	0.04	0.40	0.40

*Note:* for the month ending 31 December 2018

To assess the reasonableness of the proposed 2018 Framework Agreements Annual Caps, we have carried out certain steps including the followings:

We have discussed with the management of the Company and learnt that the Company is going to take over the ongoing service for the offices and car park units occupied by AUX Group and Ningbo Sanxing who has no plan for new service contracts from 2018 to 2020. As such, we have reviewed the

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## LETTER FROM THE IFA

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contracts of the Office and Commercial Property Management Services, Office Property Management Services and Car Park Management Services are consistent with the principal terms of the 2018 Framework Agreements. The proposed annual caps under the 2018 Framework Agreement I will be approximately RMB0.3 million, RMB3.7 million and RMB3.7 million for the three years ending 31 December 2020. The proposed annual caps under the 2018 Framework Agreement II will be approximately RMB0.04 million, RMB0.40 million and RMB0.40 million for the three years ending 31 December 2020. We have also reviewed the historical size of office units and commercial properties and number of car park units occupied by AUX Group and Ningbo Sanxing contained in the CCT Circular section headed “Basis of the proposed annual caps for the 2018 Framework Agreements” to analyze the historical service fee in 2017 as a reference of the proposed annual caps in the future. As the historical service fee for AUX Group’s offices and car park units and Ningbo Sanxing’s offices and car park units for the year ended 31 December 2017 was approximately RMB3.2 million and RMB0.4 million respectively, the relevant figures are in line with the management’s estimation for the three years ending 31 December 2020. The proposed annual caps under the 2018 Framework Agreements are consistent with the management’s estimation of business plan (which had been confirmed by the Company and, as the case may be, AUX Group or Ningbo Sanxing) in between AUX Group and Ningbo Sanxing for the three years ending 31 December 2020.

In view of (i) the transactions under the 2018 Framework Agreements Annual Caps are of a revenue nature to the Group; (ii) the estimated transaction volumes are agreed by AUX Group and Ningbo Sanxing and to facilitate their procurement of the relevant services from Ningbo AUX Property; and (iii) the pricing basis of the relevant transactions are fair and reasonable as discussed in sections 4.2 and 4.4 of this letter, we are of the view that the 2018 Framework Agreements Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE IFA

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### RECOMMENDATION

Having considered the principal factors and reasons above, we are of the opinion that the terms of the Transactions (including the 2018 Supplement Agreement, the 2018 Framework Agreements, the Amended 2016 Framework Agreement Annual Caps and the 2018 Framework Agreements Annual Caps) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Transactions.

Yours faithfully,  
For and on behalf of  
**Grand Moore Capital Limited**  
**Kevin So**  
*Director*

*Note:*

*Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore's type 6 regulated activity (advising on corporate finance). Mr. So has over 16 years of experience in the corporate finance industry in Hong Kong.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF DIRECTORS AND CHIEF EXECUTIVE

So far as was known to the Directors, as at the Latest Practicable Date, the following Director had interests in the shares of the associated corporations (within the meaning of Part XV of the SFO) of the Company which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which he was taken or deemed to have under such provisions of the SFO); (ii) recorded in the register maintained by the Company referred to in section 352 of the SFO pursuant thereto; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as adopted by the Company:

Name of associated corporation	Name of Director	Capacity/Nature of interest	Number and class of shares	Approximately percentage of the issued share capital
Huiiri Limited ( <i>Note 1</i> )	Zheng Jiang	Interest of a controlled corporation	0.1 ordinary share	10%
China Prosper Enterprise Holding Co., Ltd. ( <i>Note 2</i> )	Zheng Jiang	Interest of a controlled corporation	1,000 ordinary shares	10%

*Notes:*

- As at the Latest Practicable Date, Ze Hong Limited, a company wholly-owned by Mr. Zheng Jiang, was interested in 10% of the issued share capital of Huiiri Limited, the holding company of the Company which beneficially owned 219,950,000 Shares, representing approximately 58.66% of the total number of Shares in issue as at the Latest Practicable Date.
- As at the Latest Practicable Date, Ze Hong Limited, a company wholly-owned by Mr. Zheng Jiang, was interested in 10% of the issued share capital of China Prosper Enterprise Holding Co., Ltd., which was a subsidiary of Huiiri Limited.

Save as disclosed above, so far as was known to the Directors, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register maintained by the Company referred to in section 352 of the SFO pursuant thereto; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

So far as was known to the Directors, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### **3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, no Director had any existing or proposed service contract with any member of the Group, excluding service contracts expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

### **4. INTERESTS IN ASSETS AND CONTRACTS AND COMPETING INTERESTS**

None of the Directors had any interest, direct or indirect, in any asset which had, since 31 March 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, been acquired or disposed of by or leased to any member of the Group or which were, as at the Latest Practicable Date, proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in any business which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

## 5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

## 6. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualification of the experts who have given advice, letter or opinion contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Grand Moore Capital Limited	a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the expert identified above had no shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

The expert identified above did not have any interest, direct or indirect, in any asset which had, since 31 March 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, been acquired or disposed of by or leased to any member of the Group or which were, as at the Latest Practicable Date, proposed to be acquired or disposed of by or leased to any member of the Group.

The expert identified above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

## 7. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Enlarged Group was involved in any litigation or claim of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

**8. DOCUMENT AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during the normal business hours at Suite 4018, 40th Floor, Jardine House, 1 Connaught Place, Hong Kong from the date of this circular up to and including the date of the EGM (save for Saturday and public holidays):

- (a) the letter of advice from Grand Moore Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular;
- (b) the letter from Independent Board Committee, the text of which is set out in this circular;
- (c) the 2016 Framework Agreement;
- (d) the 2018 Supplemental Agreement;
- (e) the 2018 Framework Agreement I; and
- (f) the 2018 Framework Agreement II.

**9. GENERAL**

- (a) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.
- (b) The joint company secretary of the Company are Mr. Chan Hon Ki and Ms. Tsang Kwok Shan, Sandy. Ms. Tsang is a fellow member of the Association of Chartered Certified Accountants. Mr. Chan is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.



**AUX INTERNATIONAL HOLDINGS LIMITED**

**奧克斯國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2080)**

## **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (the “**EGM**”) of AUX International Holdings Limited (the “**Company**”) will be held at Room 1703–1704, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong on Thursday, 27 December 2018 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company:

### **ORDINARY RESOLUTION**

(1) “**THAT**

- (a) the 2018 Supplemental Agreement (as defined in the circular of the Company dated 11 December 2018 (the “**Circular**”) and a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder (including, among others, the extension of the term of the 2016 Framework Agreement (as defined in the Circular) to 31 December 2020, the revision of the annual caps in respect of the transactions contemplated under the 2016 Framework Agreement for the year ending 31 December 2018 and for the year ending 31 December 2019 to RMB30.0 million and RMB47.7 million respectively, and the setting of the annual cap in respect of the transactions contemplated under the Amended 2016 Framework Agreement (as defined in the Circular) for the year ending 31 December 2020 at RMB55.6 million) be and are hereby approved, confirmed and ratified; and
- (b) any Director or any other person authorised by the board of Directors be and is hereby authorised to do and execute all such acts, matters, deeds, documents and things as he/she may in his/her absolute discretion consider necessary, desirable or expedient for or in connection with the implementation of the 2018 Supplemental Agreement and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the 2018 Supplemental Agreement which is in his/her opinion not of a material nature and necessary, desirable or expedient for or in connection with the implementation of the 2018 Supplemental Agreement and all transactions and other matters contemplated thereunder or ancillary thereto, and to effect or implement any other matters referred to in this resolution.”



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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(2) **“THAT**

- (a) the 2018 Framework Agreement I (as defined in the Circular and a copy of which is tabled at the meeting and marked “B” and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps in respect of the transactions contemplated under the 2018 Framework Agreement I in the amounts of RMB300,000, RMB3,700,000 and RMB3,700,000 for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 respectively be and are hereby approved; and
- (c) any Director or any other person authorised by the board of Directors be and is hereby authorised to do and execute all such acts, matters, deeds, documents and things as he/she may in his/her absolute discretion consider necessary, desirable or expedient for or in connection with the implementation of the 2018 Framework Agreement I and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the 2018 Framework Agreement I which is in his/her opinion not of a material nature and necessary, desirable or expedient for or in connection with the implementation of the 2018 Framework Agreement I and all transactions and other matters contemplated thereunder or ancillary thereto, and to effect or implement any other matters referred to in this resolution.”

(3) **“THAT**

- (a) the 2018 Framework Agreement II (as defined in the Circular and a copy of which is tabled at the meeting and marked “C” and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the annual caps in respect of the transactions contemplated under the 2018 Framework Agreement II in the amounts of RMB40,000, RMB400,000 and RMB400,000 for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 respectively be and are hereby approved; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (c) any Director or any other person authorised by the board of Directors be and is hereby authorised to do and execute all such acts, matters, deeds, documents and things as he/she may in his/her absolute discretion consider necessary, desirable or expedient for or in connection with the implementation of the 2018 Framework Agreement II and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the 2018 Framework Agreement II which is in his/her opinion not of a material nature and necessary, desirable or expedient for or in connection with the implementation of the 2018 Framework Agreement II and all transactions and other matters contemplated thereunder or ancillary thereto, and to effect or implement any other matters referred to in this resolution.”

By Order of the Board  
**AUX International Holdings Limited**  
**Zheng Jiang**  
*Chairman*

Hong Kong, 11 December 2018

*Registered office:*

Clifton House  
75 Fort Street  
P.O. Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

*Principal place of business in Hong Kong:*

Room 506B, 5th Floor  
Tower 1, Admiralty Centre  
18 Harcourt Road  
Hong Kong

*Notes:*

1. Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. A form of proxy for the extraordinary general meeting is enclosed. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any), under which the form is signed must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time fixed for the holding of the EGM (i.e. at or before 11:00 a.m. on Tuesday, 25 December 2018 (Hong Kong time)) or any adjournment of such meeting (as the case may be).
3. Completion and return of the form of proxy will not preclude shareholders of the Company from attending and voting in person at the meeting or any adjourned meeting or upon the poll concerned if the shareholders of the Company so wish. In such event, the instrument appointing the proxy shall be deemed to be revoked.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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4. Where there are joint holders of any share any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. A member of the Company entitled to more than one vote need not, if he votes on a poll, use all his votes or cast all the votes he uses in the same way.
6. The resolution is to be voted on by way of poll.
7. For determining the entitlement to attend and vote at the extraordinary general meeting, the transfer book and register of members will be closed from Wednesday, 19 December 2018 to Thursday, 27 December 2018, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Tuesday, 18 December 2018.

*As at the date of this notice, the board of directors comprises Mr. Zheng Jiang, Mr. Chan Hon Ki, Ms. Chen Huajuan and Ms. Shen Guoying as executive directors; Mr. Poon Chiu Kwok, Mr. Bau Siu Fung and Ms. Lou Aidong as independent non-executive directors.*