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## **China Minsheng Drawin Technology Group Limited**

**中民築友科技集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 726)**

### **ANNOUNCEMENT**

**FRAMEWORK AGREEMENT IN RELATION TO  
(1) MAJOR AND CONNECTED TRANSACTION –  
EPC SERVICE ARRANGEMENT;  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS –  
SUPPLY ARRANGEMENT**

#### **INTRODUCTION**

The Board is pleased to announce that on 13 March 2017, the Company and CMDC entered into the Framework Agreement in relation to (i) the provision of EPC general contracting services by the CMDC Group to the Group; and (ii) the supply of prefabricated construction components and products by the Group to the CMDC Group.

#### **LISTING RULES IMPLICATIONS**

As at the date of this announcement, CMJYI, which held approximately 68.56% of the issued share capital of the Company, is the controlling shareholder, and hence a connected person, of the Company. CMDC is a wholly-owned subsidiary of CMJYI, and therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, each of the EPC Service Arrangement and the Supply Arrangement under the Framework Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the EPC Service Arrangement is capital in nature and one of the applicable percentage ratios in respect of the estimated maximum value of the EPC Service Arrangement over the term of the Framework Agreement exceeds 25% but is less than 100%, the EPC Service Arrangement constitutes a major and connected transaction of the Company which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Further, as the Supply Arrangement is of revenue nature and certain applicable percentage ratios in respect of the Proposed Annual Cap of the Supply Arrangement exceed 5%, the contemplated transactions under the Supply Arrangement constitute continuing connected transactions which are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the SGM for the purpose of considering the Framework Agreement (including the Proposed Annual Cap). A circular containing, among others, (i) further information on the terms of the Framework Agreement; (ii) the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with the Framework Agreement (including the Proposed Annual Cap); (iii) the letter of advice from the Independent Financial Adviser containing its advice in connection with the Framework Agreement (including the Proposed Annual Cap); and (iv) a notice convening the SGM, is currently expected to be despatched to the Shareholders on or before 3 April 2017.

**If the Independent Shareholders' approval for the Framework Agreement is not obtained at the SGM, the transactions contemplated under the Framework Agreement will not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares or any other securities of the Company.**

## INTRODUCTION

The Board is pleased to announce that on 13 March 2017, the Company and CMDC entered into the Framework Agreement in relation to (i) the EPC Service Arrangement and (ii) the Supply Arrangement.

## PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENT

- Date: 13 March 2017
- Parties: (i) the Company; and  
(ii) CMDC
- Term: For a term commencing from the approval date of the Framework Agreement by the Independent Shareholders and ending on 31 December 2017. The Framework Agreement may, subject to compliance with relevant laws and regulations and the Listing Rules as well as the agreement of the parties, be extended or renewed.
- Provision of Services: (i) Pursuant to the EPC Service Arrangement, upon selection of the CMDC Group through the bidding process arranged by the Group, CMDC agreed to provide, or should procure its subsidiaries to provide, EPC general contracting services to the Group for the development of the Group's several technology parks in the PRC.  
(ii) Pursuant to the Supply Arrangement, upon selection of the Group through the bidding process arranged by the CMDC Group, the Company agreed to supply, or should procure its subsidiaries to supply, prefabricated construction components and products to the CMDC Group for construction projects engaged by third party developers or contractors.
- Pricing: (i) Pursuant to the EPC Service Arrangement, the contractual price of EPC general contracting services to be provided by the CMDC Group to the Group should be determined with reference to the estimated costs of a construction project plus a management fee of not more than 3% of the construction costs.  
(ii) Pursuant to the Supply Arrangement, the integrated unit price of the prefabricated construction components and products to be supplied by the Group to the CMDC Group should be the prevailing market price of each unit and the quotation of the merchandise provided by the Group should be determined with reference to the estimated costs of each unit plus a profit of not more than a single digit percentage margin of the unit cost.
- Payment arrangement: The Framework Agreement provides that the details of all fees and payments due to the Group and the CMDC Group pursuant to the EPC Service Arrangement and the Supply Arrangement should be specified in each specific service or supply contract to be entered into by the relevant parties.

## **ESTIMATED TRANSACTION VALUES UNDER THE FRAMEWORK AGREEMENT**

In respect of the EPC Service Arrangement, the Company estimates that the maximum value of the transactions under the EPC Service Arrangement over the term of the Framework Agreement may reach RMB400 million (equivalent to approximately HK\$450 million). The value of each transaction under the EPC Service Arrangement will, when it is entered into, be determined according to the pricing mechanism set out in the Framework Agreement as described above.

In respect of the Supply Arrangement, the Company is required under Rule 14A.53 of the Listing Rules to set an annual cap over the term of the Framework Agreement. Accordingly, such Proposed Annual Cap over the term of the Framework Agreement has been determined to be RMB476 million (equivalent to approximately HK\$536 million). The value of each transaction under the Supply Arrangement will, when it is entered into, be determined according to the pricing mechanism set out in the Framework Agreement as described above.

In arriving at the estimated maximum value of the transactions under the EPC Service Arrangement and the Proposed Annual Cap for the Supply Arrangement, the Directors have taken into consideration the following factors (as appropriate):

- (i) in respect of the EPC Service Arrangement, (a) the general pricing policy of construction companies in the PRC; (b) the average construction price (inclusive of tax) quoted by independent construction contractors to the Group; and (c) the estimated increase in the number of the Group's technology parks for the year ending 31 December 2017 according to the development plan of the Group;
- (ii) in respect of the Supply Arrangement, (a) the average selling price (inclusive of tax) quoted by the Group to independent third party customers; (b) the estimated demand of the prefabricated construction components and products required in the construction projects to be undertaken by the CMDC Group and that are engaged by third party customers for the year ending 31 December 2017; (c) recent market price of the prefabricated construction components and products in certain cities in the PRC; and (d) the Group's expected output and production capacity for the prefabricated construction components and products for the year ending 31 December 2017;
- (iii) the inclusion of a reasonable buffer for the transaction amounts under the EPC Service Arrangement and the Supply Arrangement, respectively, so as to accommodate any unexpected cost inflation, business growth and increase in the aforesaid transaction amounts; and
- (iv) recent government policies in the PRC related to the development of the prefabricated construction industry, market conditions and the economic outlook of the PRC for the year ending 31 December 2017.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENT**

Due to the demand for business and technological development and requirements, the Group expects that in the current financial year it will continuously develop technology parks, so as to strengthen its industrialised and prefabricated construction capabilities in line with the market trends and the favourable PRC national policy. CMDC, which engages in property construction and engineering business, has the requisite construction capability and qualification to serve as a competent contractor for constructing the technology parks of the Group. The EPC Service Arrangement contemplated under the Framework Agreement will thereby enable the Company to leverage on the comparative advantage of the CMDC Group. In addition, the further collaboration between the Company and CMDC under the Supply Arrangement will enable the Group to fully realise the strategic capability presented by its prefabricated construction business and provide an additional source of income to the Group, which will improve its revenue and profit. By entering into the Framework Agreement, it will serve as a coherent framework for further cooperation amongst the parties and improve project efficiencies and approval process for such transactions.

The Board (excluding the independent non-executive Directors, whose views will be provided after taking into account the advice of the Independent Financial Adviser, and the Overlapping Directors) is of the view that:

- (i) the terms and conditions of the Framework Agreement were determined after arm's length negotiation and are on normal commercial terms which are fair and reasonable;
- (ii) the Proposed Annual Cap is fair and reasonable; and
- (iii) the Framework Agreement and the transactions contemplated thereunder was entered into and will be conducted in the ordinary and usual course of business of the Company and its subsidiaries, and are in the interest of the Company and the Shareholders as a whole.

With the above backdrop of the commercial reasons and benefits for entering to the Framework Agreement, the Company has taken into account the following factors and considered that the estimated transaction values of the EPC Service Arrangement and the Supply Arrangement over the term of the Framework Agreement, if there were to be realised to the maximum extent, would unlikely to create an unreasonable concentration on the CMDC Group as a supplier and a customer respectively:

- (a) *The Group has a solid and diversified independent customer base.* Since mid-2016, the Group has entered into prefabricated construction components supply contracts with a variety of independent customers, which include large-scale property developers, contractors and construction suppliers in various provinces of the PRC. As at February 2017, the total contracted sales derived from such supply contracts with independent third party customers amounted to approximately RMB130 million (equivalent to approximately HK\$146 million), which demonstrates the Group's continuous endeavours in building up a stable revenue stream from independent customers.

The Group expects to further broaden such customer base in 2017 with the support of the Group's expanded production capacity. As at the date of this announcement, the Group has completed the construction of technology parks in six cities in China. These technology parks have either started trial or commercial operation since the second half of year 2016. Upon these technology parks reaching their full commercial operational capacity, the total aggregated production capacity of prefabricated construction components of the Group is expected to range from approximately 410,000 to 550,000 cubic metre in 2017. In view of the expanded production capacity of the Group in 2017 and in order to progressively gear up the utilisation rate of such available capacity such that the Group may realise the revenue potentials, the Group will continue its endeavours to broaden its customer base by strengthening its marketing capabilities and expanding its sales network. In planning the allocation of utilisation capacity of the Group in 2017, it is expected that the production capacity of prefabricated construction components of the Group to be applied towards production of supplies to the CMDC Group under the Supply Arrangement will amount to a maximum of approximately 170,000 cubic metres. As such, the sales to the CMDC Group would represent approximately 30% to 40% of the total estimated production capacity, whereas the remaining estimated production capacity ranging from approximately 60% to 70% is expected to be utilised for sales of prefabricated construction components to independent third party customers.

In making efforts to realise the revenue potentials enabled by the expanded production capacity of the Group, apart from entering into the Supply Arrangement with CMDC, each technology park of the Group has its own marketing teams to pitch to independent customers and attend various product exhibitions from time to time in building its sales network. The marketing teams would also organise onsite product demonstration exhibitions to increase the profile and branding of the Group's prefabricated business amongst potential customers.

- (b) *The viability and future prospects of the Group's prefabricated business is supported by recent favourable government policies relating to the industry and industry trends in the PRC.* The Company believes that PRC policies are supportive of the development of the Group's prefabricated business in the PRC, and as such there present lots of opportunities for the Group to grow this business. For examples, (i) the relevant regulations in Shanghai require that all newly-developed property projects should be constructed by prefabrication; (ii) the Hangzhou local government has announced its target to construct 30% of new buildings by prefabrication by 2022; and (iii) the relevant regulations in Changsha require that property projects invested by local government should be constructed by prefabrication.
- (c) *The Company has adopted a prudent and flexible approach in the proposed Supply Arrangement with CMDC.* The Proposed Transactions including the Supply Arrangement are proposed to end on 31 December 2017 (i.e. less than one year), which is intended to serve as a trial and experimental collaboration between the parties. This would enable the Company to conduct a frequent review of the Proposed Transactions including the Supply Arrangement (which review would involve whether the Supply Arrangement should continue after the initial period and if so, whether any of the terms and conditions of the Supply Arrangement should be amended or updated) against the backdrop that the Group's businesses and operations are in a development stage. This will also allow the Group to maintain flexibility with other customers.

- (d) *The continuous expansion of revenue base of the Group would lower the percentage of contribution of sales revenue to be generated from the CMDC Group under the Supply Arrangement to the overall revenue of the Group.* Since the second half of 2015, the Group has been increasing its efforts in expanding and gearing up its business and operation (particularly in building its production capabilities and capacity in the prefabricated business) which it believes will in time translate into greater revenue streams. Going forward, apart from progressively gearing up its prefabricated business and operations as enabled by the increased production capacity derived from the commissioning of the technology parks of the Group, the Group is also keen to expand its presence in the rural villa development market in the PRC in view of the strong market interest for investment in new agricultural and rural developments in countryside areas. If these efforts are proved to be commercially viable, it may potentially further increase and diversify the revenue bases of the Group.
- (e) *Procurement of EPC services from CMDC Group will be conducted on fair and reasonable terms and there are potentially other comparable service providers for the Group to procure such services on market terms.* If the Framework Agreement is approved by the Independent Shareholders at the SGM, it will provide the framework of fair and reasonable terms for the Group to procure the EPC services from CMDC Group should it desire to do so. Notwithstanding the existence of the Framework Agreement, each time when the Group selects a contractor for the construction of a technology park, it is expected to undergo a selection process under which the Group will invite bids from several contractors, including the CMDC Group, for the Group's consideration and assessment. The Group will consider the capability of, and the terms offered by, each of the potential contractors. Even if the CMDC Group were to be engaged for undertaking the construction of a particular technology park, there is no guarantee that it will be selected as the contractor for the construction of other technology parks as there will be other readily available comparable and competent contractors in the market for the Group to consider for other engagements.

## **INFORMATION OF THE COMPANY**

The Company was incorporated as an exempted company with limited liability in Bermuda and is listed on the Stock Exchange. It is an investment holding company with subsidiaries principally engaged in prefabricated construction business and property investment in the PRC.

## **INFORMATION OF CMDC**

CMDC was incorporated in the PRC and it is a wholly-owned subsidiary of CMJYI.

The principal business of CMDC includes real property construction and decoration, installation of mechanical and electrical equipment, construction of base foundation and infrastructure.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, CMJYI, which held approximately 68.56% of the issued share capital of the Company, is the controlling shareholder, and hence a connected person, of the Company. CMDC is a wholly-owned subsidiary of CMJYI, and therefore a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, each of the EPC Service Arrangement and the Supply Arrangement under the Framework Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the EPC Service Arrangement is capital in nature and one of the applicable percentage ratios in respect of the estimated maximum value of the EPC Service Arrangement over the term of the Framework Agreement exceeds 25% but is less than 100%, the EPC Service Arrangement constitutes a major and connected transaction of the Company which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Further, as the Supply Arrangement is of revenue nature and certain applicable percentage ratios in respect of the Proposed Annual Cap of the Supply Arrangement exceed 5%, the contemplated transactions under the Supply Arrangement constitute continuing connected transactions which are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Over-lapping Directors have abstained from voting on the relevant resolutions for good corporate governance, as they also serve as directors and/or senior managers of certain shareholders and/or subsidiaries of CMJYI (other than CMDC).

## **GENERAL**

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Framework Agreement (including the Proposed Annual Cap). The Company has appointed Altus Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Company will convene the SGM for the purpose of considering and approving the Framework Agreement (including the Proposed Annual Cap). Shareholders with a material interest in the Framework Agreement and the transactions contemplated thereunder will abstain from voting on the relevant resolution(s) at the SGM.

A circular containing, among others, (i) further information on the terms of Framework Agreement; (ii) the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with the Framework Agreement (including the Proposed Annual Cap); (iii) the letter of advice from the Independent Financial Adviser containing its advice in connection with the Framework Agreement (including the Proposed Annual Cap); and (iv) a notice convening the SGM, is currently expected to be despatched to the Shareholders on or before 3 April 2017.



**If the Independent Shareholders’ approval for the Framework Agreement is not obtained at the SGM, the transactions as contemplated under the Framework Agreement will not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares or any other securities of the Company.**

## **DEFINITIONS**

“Board”	the board of Directors
“CMDC”	China Minsheng Drawin Construction Co., Ltd.* (中民築友建設有限公司), a company established in the PRC and a wholly-owned subsidiary of CMJYI
“CMDC Group”	CMDC and its subsidiaries
“CMJYI”	China Minsheng Jiaye Investment Co., Ltd.* (中民嘉業投資有限公司), a company established in the PRC and the controlling shareholder of the Company
“Company”	China Minsheng Drawin Technology Group Limited (中民築友科技集團有限公司), a company incorporated in Bermuda with limited liability and listed on the Main Board of the Stock Exchange (Stock Code: 00726)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“EPC”	engineering, procurement and construction
“EPC Service Arrangement”	the provision of EPC general contracting services by the CMDC Group to the Group for the development of the Group’s several technology parks in the PRC
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	the independent board committee of the Board comprising all the independent non-executive Directors, namely Mr. Chan Chi Hung, Mr. Jiang Hongqing, Mr. Lee Chi Ming, and Mr. Ma Lishan, established to advise the Independent Shareholders in respect of the Framework Agreement, the Proposed Annual Cap and the transactions contemplated thereunder
“Independent Financial Adviser”	Altus Capital Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to conduct type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement, the Proposed Annual Cap and the transactions contemplated thereunder
“Independent Shareholders”	all Shareholders other than the Shareholders with a material interest in the Framework Agreement and the transactions contemplated thereunder
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Over-lapping Directors”	Mr. Yin Jun, Mr. Mi Hongjun, Mr. Chen Donghui, Ms. Gan Ping and Mr. Zhao Xiaodong
“PRC”	the People’s Republic of China which, for the purposes of this announcement only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Annual Cap”	the proposed annual cap in respect of the Supply Arrangement over the term of the Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened for the purpose of approving the Framework Agreement, the Proposed Annual Cap and the transactions contemplated thereunder
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

“Supply Arrangement” the supply of prefabricated construction components and products by the Group to the CMDC Group for construction projects engaged by third party developers or contractors

“%” per cent

By order of the Board of  
**China Minsheng Drawin Technology Group Limited**  
**Yin Jun**  
*Chairman and Executive Director*

Hong Kong, 13 March 2017

*As at the date of this announcement, the Board comprises Mr. Yin Jun (Chairman), Mr. Chen Domingo and Mr. Mi Hongjun as executive directors; Mr. Chen Donghui, Ms. Gan Ping, Mr. Zhao Xiaodong and Mr. Zhou Feng as non-executive directors; Mr. Chan Chi Hung, Mr. Jiang Hongqing, Mr. Lee Chi Ming, and Mr. Ma Lishan as independent non-executive directors.*

\* *For identification purpose only*