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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) DISCLOSEABLE AND CONNECTED TRANSACTION – EPC SERVICE ARRANGEMENT; AND (2) CONTINUING CONNECTED TRANSACTIONS – SUPPLY ARRANGEMENT

INTRODUCTION

The Board is pleased to announce that on 2 May 2018, 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, namely the EPC Service Arrangement and (ii) the supply of prefabricated construction components and products by the Group to the CMDC Group, namely the Supply Arrangement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CMIC, which held approximately 65.03% of the issued share capital of the Company, is the ultimate controlling shareholder, and hence a connected person, of the Company. CMDC is an indirect wholly-owned subsidiary of CMIC, and therefore a connected person of the Company pursuant to 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 the applicable percentage ratios in respect of the estimated maximum value of the EPC Service Arrangement over the term of the Framework Agreement exceed 5% but less than 25%, the EPC Service Arrangement constitutes (i) a connected transaction of the Company which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and (ii) a discloseable transaction of the Company which is subject to the reporting and announcement requirements under Chapter 14 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 17 May 2018.

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 2 May 2018, 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: 2 May 2018

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 2018. 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 a selection or bidding process undertaken 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.

Each time when the Group selects a contractor for the construction of a technology park, the Group will consider the quotation from the CMDC Group and compare it with the market price expected to be charged or offered by other service providers in the relevant local market. The Group believes that the pricing of other EPC services providers are, in general, transparent to customers and can be obtained through making enquiries with market participant. Where the construction timetable of the relevant technology park permits, the Group may also invite price quotations from at least two EPC services suppliers independent for review and comparison purpose. The Group will contract with the CMDC Group under the Framework Agreement if the price quoted by the CMDC Group in respect of the EPC services in the relevant local market is lower than, or within the range of, the market price to be charged or offered by independent third parties in the same local market.

(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.

Please refer to the paragraph headed "Pricing" below for the procedures and criteria generally adopted for determining the price to be quoted by the Group to the CMDC Group.

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 5% of the construction costs. In principle, the contractual price of EPC general contracting services should not exceed RMB2,600 per square metre (including tax). The CMDC Group further undertakes to the Company that the contractual price of EPC general contracting service will not be higher than the market rate.
- (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 10% margin of the unit cost. In principle, the integrated unit price should not exceed RMB3,000 per cubic metre (including tax).

The marketing department of the Group will assess and determine the proposed sale price of the prefabricated construction components as quoted by the Group to CMDC Group with reference to (i) the market price range of such units as charged by the largest supplier in the relevant locality, (ii) a comparison of the quality and standard of those prefabricated construction components, and (iii) the demand for such components in the market at the relevant time. As the Supply Arrangement is continuing connected transaction, the marketing department will also review and assess if such price quoted by the Group is no less favourable to the Group than those offered to independent customers, taking into account the difference in the quality and standard of the prefabricated construction units and the development of long term business relationship of the Group. The general manager responsible for the business segment of supplying the prefabricated construction components will make the final approval of setting the price.

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.

THE PREVIOUS FRAMEWORK AGREEMENT

On 13 March 2017, the Company entered into the Previous Framework Agreement with CMDC in relation to the EPC Service Arrangement and the Supply Arrangement. The principal terms of the Previous Framework Agreement were set out in the announcement of the Company dated 13 March 2017.

In respect of the Supply Arrangement, the Company was required to set an annual cap over the term of the Previous Framework Agreement. The actual realised transaction amounts in 2017 and the annual cap in relation to the Supply Arrangement under the Previous Framework Agreement are set out below:

Under the Previous Framework Agreement	Actual realised amounts (RMB)	Annual cap (RMB)
Supply Arrangement	24 million	476 million

The Directors would like to add that the very low utilization rate for the annual cap in relation to the Supply Arrangement under the Previous Framework Agreement was due to (i) delays in the undertaking of construction projects by the CMDC Group in 2017 and (ii) the difficulty faced by the CMDC Group in hiring skilled personnel for the construction projects due to, amongst others, shortage in supplies. The Directors believe that, in order to put the Group in a competitive position to be awarded with supply mandates by the CMDC Group, it would be important that the Proposed Annual Cap for the Supply Arrangement under the Framework Agreement is set at the proposed level so that the Group would not be prevented from submitting tenders for supply mandates because the annual transaction amounts have reached or likely to exceed an annual cap which is set at a lower level.

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\$493 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 RMB300 million (equivalent to approximately HK\$370 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 plan of the Group to develop several technology parks in major cities across the PRC in 2018, the aggregate construction area of which during 2018 is expected to be more than 166,000 square metres, (b) the Group's expectation that shortage of labour in 2017 which cause delays in undertaking the construction of technology parks in 2017 may be alleviated in 2018; and (c) the higher average expected or actual construction price in respect of EPC services to be quoted by independent construction companies to the Group compared to the price quoted by CMDC Group in 2017;
- (ii) in respect of the Supply Arrangement, (a) the expected growing demand from CMDC Group for prefabricated construction components in light of the expected increase in project undertakings of CMDC Group which requires prefabricated construction units in 2018; (b) the Group's growing production capacity for prefabricated construction components due to construction of new technology parks in 2018; and (c) the maximum selling price of the prefabricated construction components quoted by the Group to CMDC Group under the Framework Agreement;
- (iii) 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 2018.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENT

The Group has been continuously developing technology parks in major cities across the PRC and has completed the fundamental layout in major developed regions in the middle-eastern part of the PRC. 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 being a general contractor. 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 Over-lapping 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 March 2017 (being the month where the announcement in relation to the Previous Framework Agreement was made), the Group has entered into more than 30 prefabricated construction component supply contracts with new independent customers, which effectively further broadened its independent customer base. As at the end of February 2018, the total contracted sales derived from supply contracts in respect of prefabricated construction units with independent third parties amounted to approximately RMB475.5 million, compared to only RMB130 million as at February 2017. Further, as the Company has recently revisited its plan with respect to the progress of construction of the technology parks, the production capacity of prefabricated construction components as at the end of 2018 is expected to increase. In view of the expanded production capacity of the Group in 2018, the Group will continue its endeavour to broaden its customer base with independent third parties so as to better utilise such available capacity to realise the revenue potentials. The Company expects that in 2018 the sales amounts of the prefabricated construction units to the CMDC Group will account for less than 25% of the total sales amount of the prefabricated construction units by the Group.
- (b) *The viability and future prospects of the Group's business is supported by favourable government policies:* The Company believes that PRC policies are supportive of the development of the Group's prefabricated business in the PRC, and as such there presents many of opportunities for the Group to grow this business. For examples, (i) the Ministry of Housing and Urban-Rural Development of the PRC has issued a directive which proposes that, by 2020, prefabricated buildings should constitute (A) 15% or more of all of the newly-constructed buildings in the PRC; and (B) 20% or more of all newly-constructed buildings in certain focused regions; and (ii) the Ministry of Housing and Urban-Rural Development of the PRC has promulgated a plan that, by 2020, prefabricated building area should constitute 15% of all the newly constructed building area. As such, the Company believes that the industry will show an upward growing trend in the year of 2018 which will generate demand from independent third parties for the prefabricated construction components manufactured by the Group.

- (c) *Procurement of EPC services from CMDC Group will be conducted on fair and reasonable terms:* As disclosed in the sub-paragraph headed “Provision of Services”, each time when the Group selects a contractor for the construction of a technology park, the Group will consider the quotation from the CMDC Group and compare it with the market price expected to be charged by other service providers in the relevant local market. The Group will only enter into contracts with the CMDC Group under the Framework Agreement if the price quoted by the CMDC Group in respect of the EPC services in the relevant local market is lower than, or within the range of, the market price to be charged by independent third parties. As such, 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 an indirect wholly-owned subsidiary of CMIC.

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, CMIC, which held approximately 65.03% of the issued share capital of the Company, is the ultimate controlling shareholder, and hence a connected person, of the Company. CMDC is an indirect wholly-owned subsidiary of CMIC, and therefore a connected person of the Company pursuant to 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 the applicable percentage ratios in respect of the estimated maximum value of the EPC Service Arrangement over the term of the Framework Agreement exceed 5% but are less than 25%, the EPC Service Arrangement constitutes (i) a connected transaction of the Company which is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules, and (ii) a discloseable transaction of the Company which is subject to the reporting and announcement requirements under Chapter 14 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 CMIC (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 17 May 2018.

The exchange rate adopted in this announcement for illustration purpose only is HK\$1 = RMB0.81094.

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 an indirect wholly-owned subsidiary of CMIC
“CMDC Group”	CMDC and its subsidiaries

“CMIC”	China Minsheng Investment Corp., Ltd.* (中國民生投資股份有限公司), a company established in the PRC and the ultimate 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
“Framework Agreement”	the agreement entered into between the Company and CMDC on 2 May 2018 in relation to the EPC Service Arrangement and the Supply Arrangement
“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 (including the Proposed Annual Cap for the Supply Arrangement and the estimated transaction value under the EPC Service Arrangement) 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 (including the Proposed Annual Cap for the Supply Arrangement and the estimated transaction value under the EPC Service Arrangement) 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
“Previous Framework Agreement”	the agreement entered into between the Company and CMDC on 13 March 2017 in relation to the EPC Service Arrangement and the Supply Arrangement for 2017
“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 (including the Proposed Annual Cap for the Supply Arrangement and the estimated transaction value under the EPC Service Arrangement) 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
“TCMD”	Tianjin China Minsheng Drawin Technology Co., Limited* (天津中民築友科技有限公司), a company established in the PRC and the indirect controlling shareholder of the Company

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

Hong Kong, 2 May 2018

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 and Mr. Zhao Xiaodong 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