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**If you have sold or transferred** all your shares in China Minsheng DIT Group Limited, you should at once hand this Circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



**CHINA MINSHENG DIT GROUP LIMITED**

**中民築友智造科技集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 726)**

**FRAMEWORK AGREEMENTS IN RELATION TO  
(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS —  
EPC SERVICE ARRANGEMENT AND PARK DESIGN SERVICE  
ARRANGEMENT;  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS — SUPPLY  
ARRANGEMENT AND PC DESIGN ARRANGEMENT  
AND  
NOTICE OF SGM**

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



Terms used in this cover shall have the same meanings as defined in this Circular.

A letter from the Board is set out on pages 5 to 24 of this Circular. A letter of advice containing the recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 25 to 26 of this Circular. A letter of advice from Fortune Financial Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 56 of this Circular.

A notice of the SGM to be held at 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Thursday, 4 July 2019 at 10:30 a.m. is set out on pages 61 to 62 of this Circular. Whether or not you are able to attend and vote at the SGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM 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 SGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

14 June 2019

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## DEFINITIONS

*In this Circular, the following terms and expressions shall have the following meanings unless the context requires otherwise:*

“Board”	the board of Directors
“Circular”	this circular issued by the Company in accordance with the Listing Rules in respect of the transactions contemplated under the Framework Agreements
“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
“CMDCD”	China Minsheng Drawin Construction Design Co., Ltd.* (中民築友建築設計有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of CMIC
“CMDCD Group”	CMDCD and its subsidiaries
“CMDCT”	China Minsheng Drawin Construction Technology Group Co., Ltd.* (中民築友建設科技集團有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of CMIC
“CMDCT Group”	CMDCT 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 DIT Group Limited (中民築友智造科技集團有限公司), 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 CMDCT Group to the Group for the development of the Group’s technology parks in the PRC

## DEFINITIONS

“Framework Agreement I”	the agreement entered into between the Company and CMDCT on 3 April 2019 in relation to the EPC Service Arrangement and the Supply Arrangement
“Framework Agreement II”	the agreement entered into between the Company and CMDCD on 3 April 2019 in relation to the Park Design Service Arrangement and the PC Design Service Arrangement
“Framework Agreements”	Framework Agreement I and Framework Agreement II
“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. Jiang Hongqing, Mr. Lee Chi Ming and Mr. Ma Lishan, established to advise the Independent Shareholders in respect of the Framework Agreements (including the estimated transaction values under the EPC Service Arrangement and the Park Design Service Arrangement and the Proposed Supply Arrangement Annual Cap) and the transactions contemplated thereunder
“Independent Financial Adviser”	Fortune Financial Capital Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to conduct type 6 (advising on corporate finance) regulated activities, independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreements (including the estimated transaction values under the EPC Service Arrangement and the Park Design Service Arrangement and the Proposed Supply Arrangement Annual Cap) and the transactions contemplated thereunder
“Independent Shareholders”	all Shareholders other than the Shareholders with a material interest in the Framework Agreements and the transactions contemplated thereunder
“Latest Practicable Date”	12 June 2019, being the latest practicable date prior to the printing of this Circular for ascertaining certain information for inclusion in this Circular

## DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Over-lapping Director”	Mr. Yin Jun
“Park Design Service Arrangement”	the provision of design services by CMDCD to the Group in respect of the design of the Group’s technology parks in the PRC
“PC Design Service Arrangement”	the provision of design services by CMDCD to the Group in respect of the design of prefabricated construction components and products sold by the Group
“PRC”	the People’s Republic of China which, for the purposes of this Circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Framework Agreement”	the framework agreement entered into between the Company and CMDC on 2 May 2018 in relation to among others, the EPC service arrangement and the supply arrangement for 2018
“Proposed PC Design Service Arrangement Annual Cap”	the proposed annual cap in respect of the PC Design Service Arrangement over the term of the Framework Agreement II
“Proposed Supply Arrangement Annual Cap”	the proposed annual cap in respect of the Supply Arrangement over the term of the Framework Agreement I
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened on 4 July 2019 for the purpose of approving the Framework Agreements (including the estimated transaction values under the Supply Arrangement, the EPC Service Arrangement and the Park Design Service Arrangement and the Proposed Supply Arrangement 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

## DEFINITIONS

“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 CMDCT Group for its construction projects engaged by third party developers or contractors
“%”	per cent

*Unless otherwise specified in this Circular, the exchange rate for reference purpose in this Circular is HK\$100 to RMB86.27.*

\* *The English names of the PRC entities mentioned in this Circular marked with “\*” are translations from their Chinese names and are for identification purposes only. In case of any inconsistency, the Chinese names shall prevail.*



**CHINA MINSHENG DIT GROUP LIMITED**

**中民築友智造科技集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 726)**

*Executive Directors:*

Mr. Yin Jun (*Chairman*)

Mr. Yang Hongwei (*Chief Executive Officer*)

*Non-Executive Directors:*

Mr. Peng Xiongwen

*Independent Non-Executive Directors:*

Mr. Jiang Hongqing

Mr. Lee Chi Ming

Mr. Ma Lishan

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM 12 Bermuda

*Principal Place of Business  
in Hong Kong:*

Suites 1001-1004

10th Floor

One Pacific Place

88 Queensway

Hong Kong

14 June 2019

*To the Shareholders*

Dear Sir or Madam,

**FRAMEWORK AGREEMENTS IN RELATION TO  
(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS —  
EPC SERVICE ARRANGEMENT AND PARK DESIGN SERVICE  
ARRANGEMENT;  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS — SUPPLY  
ARRANGEMENT AND PC DESIGN ARRANGEMENT  
AND  
NOTICE OF SGM**

## LETTER FROM THE BOARD

### INTRODUCTION

Reference is made to the announcement issued by the Company on 3 April 2019 in relation to, among others, (A) the Framework Agreement I entered into between the Company and CMDCT in relation to (i) the EPC Service Arrangement and (ii) the Supply Arrangement; and (B) the Framework Agreement II entered into between the Company and CMDCD in relation to (i) the Park Design Service Arrangement and (ii) the PC Design Service Arrangement.

The purpose of this Circular is to provide you with, among other things:

- (i) further information on the terms of the Framework Agreements;
- (ii) the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with the Framework Agreements (including the Proposed Supply Arrangement Annual Cap);
- (iii) the letter of advice from the Independent Financial Adviser containing its advice in connection with the Framework Agreements (including the Proposed Supply Arrangement Annual Cap); and
- (iv) a notice convening the SGM to consider and, if thought fit, to approve the Framework Agreements (including the Proposed Supply Arrangement Annual Cap).

### PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENT I

Date: 3 April 2019

Parties: (i) the Company; and  
(ii) CMDCT

Term: For a term commencing from the approval date of the Framework Agreement I by the Independent Shareholders and ending on 31 December 2019. The Framework Agreement I 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: (1) Pursuant to the EPC Service Arrangement, upon selection of the CMDCT Group through the selection or bidding process arranged by the Group, CMDCT agreed to provide, or should procure its subsidiaries to provide, EPC general contracting services to the Group for the development of the Group's technology parks in the PRC.



## LETTER FROM THE BOARD

EPC service is a form of arrangement where the EPC contractor is made responsible for all activities from procurement, construction, commission and handover of the technology parks to the Company.

Each time when the Group selects a contractor for the construction of a technology park, the Group will consider the quotation from the CMDCT Group and compare it with the market price expected to be charged or offered by other service providers in the city or district in which the relevant technology park being constructed is located. 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 participants. The tender price for provision of EPC services are also available on the government websites of the public resources trading centres. Where the construction timetable of the relevant technology park permits, the Group may also invite price quotations from at least two other independent EPC services suppliers for review and comparison purposes. The Group will contract with the CMDCT Group pursuant to the Framework Agreement I if the price quoted by the CMDCT Group in respect of the EPC services in the city or district in which the relevant technology park being constructed is located is lower than, or within the range of, the market price to be charged or offered by other independent third parties in the same local market.

- (2) Pursuant to the Supply Arrangement, upon selection of the Group through the bidding process arranged by the CMDCT Group, the Company agreed to supply, or should procure its subsidiaries to supply, prefabricated construction components and products to the CMDCT 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 CMDCT Group.

## LETTER FROM THE BOARD

### Pricing:

- (1) Pursuant to the EPC Service Arrangement, the contractual price for EPC general contracting services to be provided by the CMDCT Group to the Group should be determined with reference to the estimated costs of a construction project plus a profit margin and management fee of not more than 5% of the construction costs. In principle, the contractual price for EPC general contracting services should not exceed RMB2,600 per square metre (including tax). The CMDCT Group further undertakes to the Company that the contractual price for EPC general contracting services to be quoted by the CMDCT Group will not be higher than the market rate within the industry.

The proposed profit margin and the contractual price for EPC service per square metre are set with reference to the average construction price quoted from the other market participants in 2018 and the projected level of demand for EPC services of the Group in 2019.

- (2) Pursuant to the Supply Arrangement, the integrated unit price of the prefabricated construction components and products to be supplied by the Group to the CMDCT Group should be the prevailing market price of each unit and the price quotation to be provided by the Group should be determined with reference to the estimated costs of each unit plus a profit margin of not more than 10% of the unit cost. In principle, the integrated unit price should not exceed RMB3,000 per cubic metre (including tax).

The proposed profit margin and the integrated unit price of the prefabricated construction components are set with reference to the average unit price per cubic metre of the prefabricated construction components quoted from the other market participants in 2018, the projected level of demand for prefabricated units by the CMDCT Group and the other market participants in 2019, and the estimated costs of each unit by the Group in 2019.

## LETTER FROM THE BOARD

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 CMDCT 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 a 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 other 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 decision in setting the price.

Payment arrangement: The Framework Agreement I provides that the details of the payment mechanism for all fees and payments due to the Group or the CMDCT Group pursuant to the EPC Service Arrangement or the Supply Arrangement should be specified in each specific service or supply contract to be entered into by the relevant parties.

### PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENT II

Date: 3 April 2019

Parties: (i) the Company; and  
(ii) CMDCD

Term: For a term commencing from the approval date of the Framework Agreement II by the Independent Shareholders and ending on 31 December 2019. The Framework Agreement II 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: (1) Pursuant to the Park Design Service Arrangement, upon selection of CMDCD through the selection or bidding process arranged by the Group, CMDCD agreed to provide design services to the Group in respect of the design of the Group's technology parks in the PRC.

## LETTER FROM THE BOARD

Each time when the Group selects a contractor for the design of a technology park, the Group will consider the quotation from CMDCD and compare it with the market price expected to be charged or offered by other service providers in the city or district in which the relevant technology park being constructed is located. The Group believes that the pricing of other design services providers are, in general, transparent to customers and can be obtained through making enquiries with market participants. The tender price for provision of park design services are also available on the government websites of the public resources trading centres. Where the construction timetable of the relevant technology park permits, the Group may also invite price quotations from at least two other independent design services providers for review and comparison purposes. The Group will contract with CMDCD pursuant to the Framework Agreement II if the price quoted by CMDCD in respect of the design services in the city or district in which the relevant technology park being constructed is located is lower than, or within the range of, the market price to be charged or offered by other independent third parties in the same local market.

- (2) Pursuant to the PC Design Service Arrangement, upon selection of CMDCD through the selection or bidding process arranged by the Group, CMDCD agreed to provide design services in respect of the design of prefabricated construction components and products sold by the Group.

## LETTER FROM THE BOARD

Each time when the Group selects a contractor for the design of prefabricated construction components and products, the Group will consider the quotation from CMDCD and compare it with the market price expected to be charged or offered by other service providers in the city or district in which the prefabricated construction components are to be supplied to customers of the Company. The Group believes that the pricing of other design services providers are, in general, transparent to customers and can be obtained through making enquiries with market participants. The tender price for provision of product design services are also available on the government websites of the public resources trading centres. Where the prefabricated construction components and products production timetable permits, the Group may also invite price quotations from at least two other independent design services providers for review and comparison purposes. The Group will contract with CMDCD pursuant to the Framework Agreement II if the price quoted by CMDCD in respect of the product design services in the city or district in which the prefabricated construction components are to be supplied to customers of the Company, is lower than, or within the range of, the market price to be charged or offered by other independent third parties in the same local market.

### Pricing:

- (1) Pursuant to the Park Design Service Arrangement, the contractual price for the design services to be provided by CMDCD to the Group should be determined with reference to the estimated costs of the design services plus a profit margin and management fee of not more than 5% of the design costs. In principle, the contractual price for park design services should not exceed RMB25 per square metre (including tax). CMDCD further undertakes to the Company that the contractual price for park design services to be quoted by CMDCD will not be higher than the market rate within the industry.

The proposed profit margin and the contractual price for the park design services are set with reference to the average design service fee per square metre generally charged by the other market participants in 2018 and the projected level of demand for design service by the Group.

## LETTER FROM THE BOARD

- (2) Pursuant to the PC Design Service Arrangement, the contractual price for the design services in respect of the design of the prefabricated construction components and products to be sold by the Group to third parties should be determined with reference to the estimated costs of the design services plus a profit margin and management fee of not more than 5% of the design costs. In principle, the contractual price for product design services should not exceed RMB70 per cubic metre (including tax). CMDCD further undertakes to the Company that the contractual price for product design services to be quoted by CMDCD will not be higher than the market rate within the industry.

The proposed profit margin and the contractual price of the prefabricated construction components design services are set with reference to the average product design service fee per square metre generally charged by the other market participants in 2018 and the projected level of demand for product design service by the Group.

Payment arrangement: The Framework Agreement II provides that the details of the payment mechanism for all fees and payments due to CMDCD pursuant to the Park Design Service Arrangement or the PC Design Service Arrangement should be specified in each specific service or supply contract to be entered into by the relevant parties.

### THE PREVIOUS FRAMEWORK AGREEMENT

On 2 May 2018, 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 2 May 2018.

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 2018 and the annual cap in relation to the supply arrangement under the Previous Framework Agreement are set out below:

<b>Under the Previous Framework Agreement</b>	<b>Actual realised amounts</b> <i>(RMB, approximately)</i>	<b>Annual cap</b> <i>(RMB)</i>
Supply arrangement	126.48 million	300 million

## LETTER FROM THE BOARD

In addition, the actual realised transaction amounts in 2018 and the maximum value of transaction in relation to the EPC service arrangement under the Previous Framework Agreement are set out below:

<b>Under the Previous Framework Agreement</b>	<b>Actual realised amounts</b> <i>(RMB, approximately)</i>	<b>Maximum value of transaction</b> <i>(RMB)</i>
EPC service arrangement	315.41 million	400 million

The Directors would like to add that the low utilization rate for the annual cap in relation to the supply arrangement under the Previous Framework Agreement was due to delays in the undertaking of construction projects by the CMDC Group in 2018 as a result of:

- (a) the property cooling measures imposed by the PRC government during 2018. Due to the imposition of such measures, the amount of real estate construction projects has decreased, and the progress of the existing construction projects have been delayed, each of which contributed to the declined demand for prefabricated units; and
- (b) the unsatisfactory implementation of the favorable government policies in the PRC in respect of prefabricated units (such as the directive issued by the Ministry of Housing and Urban-Rural Development of the PRC which requires a certain percentage of newly constructed buildings to be prefabricated buildings) in some regions of the PRC (in particular, the Central and Western part of mainland China).

It is expected that the impact of the above factors will be alleviated in 2019 for reasons set out below:

- (a) the property market in the PRC may recover in 2019 as evidenced by the fact that (i) the total gross land area and total transaction value of successful land tenders have increased by approximately 6% and 10% respectively for the top ten cities in the PRC during the first four months of 2019 as compared with the corresponding period of 2018 according to statistics published by CREIS China Index Database (CREIS 中指數據), an independent property research database in the PRC and (ii) there witnesses a period-on-period growth of 11.9% in total investment for real estate development to RMB3,422 billion and a period-on-period growth of 8.8% in the floor space under construction by the real estate development enterprises to 7,226 million square metres during the first four months of 2019, according to the National Bureau of Statistics in China;
- (b) the long-term favourable PRC government policies (as set out in detail under the section headed “REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENTS”) will likely support the growth in demand for prefabricated construction units of the market participants in general and of the CMDCT Group; and

## LETTER FROM THE BOARD

- (c) in view of the fact that some of the policy targets of the favourable PRC government policies for the prefabricated units market (for instance, that set out in the directive issued by the Ministry of Housing and Urban-Rural Development of the PRC) are targeted to be achieved by no later than 2020, the consistency of the implementation of these government policies will continue to improve across various PRC regions in 2019 so as to allow the policy targets to be achieved in accordance with the stated timeline.

In addition, it is expected that, on the supply side, the construction of several technology parks by the Company, which will be completed in 2019, will increase the Group's production capacity of prefabricated construction units. The Company will therefore be placed in a better position to fulfill the demand for prefabricated construction units by the CMDCT Group.

The Directors therefore believe that, in order to put the Group in a competitive position to be awarded with mandates by the CMDCT Group, it would be important that the Proposed Supply Arrangement Annual Cap under the Framework Agreement I 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 AGREEMENTS**

#### **Supply Arrangement under Framework Agreement I**

In respect of the Supply Arrangement under the Framework Agreement I, the Company is required under Rule 14A.53 of the Listing Rules to set an annual cap over the term of the Framework Agreement I. Accordingly, such Proposed Supply Arrangement Annual Cap has been determined to be RMB300 million (equivalent to approximately HK\$347.75 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 I as described above.

#### **EPC Service Arrangement under the Framework Agreement I and Park Design Service Arrangement under Framework Agreement II**

In respect of the EPC Service Arrangement under the Framework Agreement I, the Company estimates that the maximum value of the transactions under the EPC Service Arrangement over the term of the Framework Agreement I may reach RMB250 million (equivalent to approximately HK\$289.79 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 I as described above.

In respect of the Park Design Service Arrangement under the Framework Agreement II, the Company estimates that the maximum value of the transactions under the Park Design Service Arrangement over the term of the Framework Agreement II may reach RMB6 million (equivalent to approximately HK\$6.95 million). The value of each transaction under the Park Design Service Arrangement will, when it is entered into, be determined according to the pricing mechanism set out in the Framework Agreement II as described above.



## LETTER FROM THE BOARD

As the EPC Service Arrangement and the Park Design Service Arrangement are both capital in nature which involve different aspects in the construction of a technology park and CMDCD is a direct wholly-owned subsidiary of CMDCT, the EPC Service Arrangement and the Park Design Service Arrangement require aggregation under Rule 14.22 of the Listing Rules.

For details of the implications of the Listing Rules, please refer to the section headed “LISTING RULES IMPLICATIONS”.

### **PC Design Service Arrangement under the Framework Agreement II**

In respect of the PC Design Service Arrangement under the Framework Agreement II, the Company is required under Rule 14A.53 of the Listing Rules to set an annual cap over the term of the Framework Agreement II. Accordingly, such Proposed PC Design Service Arrangement Annual Cap has been determined to be RMB9 million (equivalent to approximately HK\$10.43 million). The value of each transaction under the PC Design Service Arrangement will, when it is entered into, be determined according to the pricing mechanism set out in the Framework Agreement II as described above.

In arriving at the Proposed Supply Arrangement Annual Cap and the estimated maximum values of transactions under (i) the EPC Service Arrangement; (ii) the Park Design Service Arrangement; and (iii) the PC Design Service Arrangement, the Directors have taken into consideration the following factors (as appropriate):

- (i) in respect of the EPC Service Arrangement,
  - (a) the Group’s plans to develop and construct, continue to construct 10 technology parks in 2019, which is expected to be more than 158,000 square metres;
  - (b) in 2018, the Group’s utilisation of approximately 78.9% of the project of transaction amount of the EPC related services under the Previous Framework Agreement;
  - (c) the higher average expected or actual construction price in respect of EPC services to be offered by independent construction companies to the Group compared to the price quoted by CMDC Group in 2018. The Directors therefore expect that the average expected or actual construction price in respect of EPC services to be offered by independent construction companies to the Group will generally continue to be higher than that offered by the CMDCT Group in 2019, and that the Group will continue to attribute a large proportion of its demand for EPC services to the CMDCT Group;
  - (d) the contractual price for EPC general contracting service that may be quoted by the CMDCT Group to the Group under the Framework Agreement I shall not exceed RMB2,600 per square metre (including tax);

## LETTER FROM THE BOARD

- (e) the estimation that approximately 80% of the EPC related services to the Group will be provided by the CMDCT Group, as the Company considers it commercially reasonable to attribute a larger proportion of its demand for EPC services to the CMDCT Group in order to control the costs incurred for construction at a reasonable level, subject to the selection or bidding process as set out in the section headed “PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENT I”,
- (ii) in respect of the Park Design Service Arrangement,
    - (a) the aggregate area of the technology parks which the Group is planning to settle their design in 2019 will be more than 230,000 square meters;
    - (b) the contractual price for the park design service that may be quoted by CMDCD Group to the Group under Framework Agreement II shall not exceed RMB25 per square metre (including tax);
    - (c) the Company has therefore set the annual cap of the Park Design Service Arrangement at the proposed level taking into account the factors set out in paragraphs (ii)(a) and (ii)(b) above, assuming that the demand for park design services of the Group will be fully satisfied by the CMDCD Group and without factoring in any buffer on top of the Group’s estimated demand for park design services in 2019;
    - (d) in view of the fact that (aa) internal control measures (as set out in detail under the section headed “INTERNAL CONTROL MEASURES”) including, for instance, regular monitoring of the pricing terms and the aggregate transaction volume under the Park Design Service Arrangement are in place, so as to ensure that the transaction terms under the Park Design Service Arrangement are no less favorable than that offered by independent third parties, and that the proposed annual cap will not be exceeded notwithstanding that no buffer has been factored in and (bb) the aggregate area of technology park which requires park design services have largely been settled and will unlikely be subject to any significant deviation, the Director believes that it is fair and reasonable to attribute large proportion of the Group’s demand for park design services to the CMDCD Group and for the annual cap to be set at the proposed level.
  - (iii) in respect of the Supply Arrangement,
    - (a) the Company’s estimation that the demand of the prefabricated construction components and products from the CMDCT Group will be approximately 109,000 cubic meters, according to a recent discussion between the Company and the CMDCT Group. However, based on the past construction experience, the CMDCT Group indicated that a discrepancy of up to 10% may be possible between the actual transaction volume and the estimated transaction volume;

## LETTER FROM THE BOARD

- (b) based on the above, the estimated demand of CMDCT Group for prefabricated construction units in 2019 being approximately in the range of 98,000 to 120,000 cubic metres;
- (c) the Group's plan to develop 10 new technology parks in 2019. The Company therefore believes that it will be in a better position to acquire greater market share in the prefabricated construction unit market in general and to fulfill the demand of the CMDCT Group of prefabricated construction units in 2019;
- (d) the unit selling price of the prefabricated construction components that may be quoted by the Group to the CMDCT Group under the Framework Agreement I shall not exceed RMB3,000 per cubic metre (including tax) and the expected average selling price of approximately RMB2,500 per cubic metre (including tax);
- (e) the Company has determined the annual cap of the Supply Arrangement at the proposed level based on the maximum estimated demand of the CMDCT Group (as set out in detail in paragraph (iii)(b) above) at approximately 120,000 cubic metres, factoring in a 10% buffer resulting from the discrepancy of the Company's estimation of the demand of prefabricated construction components and products from the CMDCT Group;
- (f) the Directors believe that such buffer amount is fair and reasonable taking into account the following factors:
  - (aa) the potential discrepancy of  $\pm 10\%$  in the actual and estimated level of demand by CMDCT Group (as set out in detail in paragraph (iii)(a) above);
  - (bb) the Proposed Supply Arrangement Annual Cap will place the Company in a competitive position to be awarded with mandates of prefabricated construction components by the CMDCT Group on top of the Company's estimation of the CMDCT Group's demand for prefabricated construction components; and
  - (cc) the internal control measures imposed by the Company, including, for instance, the continuing assessment by the marketing department of the Group as to whether the price quoted by the Group under the Supply Arrangement to the CMDCT Group is no less favourable than that offered to the independent third parties (as set out in detail under the section headed "PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENT I"), to ensure that the transaction terms under the Supply Arrangement are fair and reasonable.

## LETTER FROM THE BOARD

- (iv) in respect of the PC Design Service Arrangement,
  - (a) the demand of CMDCT Group of prefabricated construction units in 2019 for approximately in the range of 98,000 to 120,000 cubic metres as set out in paragraph (iii) of this section;
  - (b) the contractual price for product design services that may be quoted by the CMDCD Group to the Group under the Framework Agreement II shall not exceed RMB70 per cubic metre (including tax);
  - (c) the Company has therefore set the annual cap of the PC Design Service Arrangement at the proposed level taking into account the factors set out in paragraphs (ii)(a) and (ii)(b) above, assuming that the demand for PC design services of the Group will be fully satisfied by the CMDCD Group and without factoring in any buffer on top of the Group's estimated demand for PC design services in 2019;
  - (d) in view of the fact that internal control measures (as set out in detail under the section headed "INTERNAL CONTROL MEASURES") including, for instance, regular monitoring of the pricing terms and the aggregate transaction volume under the PC Design Service Arrangement are in place, so as to ensure that the transaction terms under the PC Design Service Arrangement are no less favorable than that offered by independent third parties, and that the proposed annual cap will not be exceeded notwithstanding that no buffer has been factored in, the Director believes that it is fair and reasonable to attribute large proportion of the Group's demand for park design services to the CMDCD Group and for the annual cap to be set at the proposed level.
- (v) the Company's belief that the PRC government policies (as set out in detail under the section headed "REASONS AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENTS") will support the development of the Group's prefabricated construction unit business in the PRC. For instance, the directive issued by the Ministry of Housing and Urban-Rural Development of the PRC requires (i) 15% or more of all newly-constructed buildings in the PRC; and (ii) 20% or more of all newly-constructed buildings in certain focused regions to be constructed using prefabricated construction units. The Company therefore expects that the demand for prefabricated units from the CMDCT Group and the other market participants will increase in order to satisfy the policy requirements. Hence, in view of the favorable policy environment, the Company expects that it will be able to acquire more mandates for prefabricated units from the CMDCT Group under the Supply Arrangement, and has therefore set the Proposed Supply Arrangement Annual Cap at the proposed level. Further, in view of the Company's expectation that the demand for prefabricated units by the CMDCT Group and other market participants in general will remain strong in 2019, the Company has also set the maximum transaction value of the EPC Service Arrangement at the proposed level in order to facilitate the expansion of the Company's production capacity by

## LETTER FROM THE BOARD

developing 10 technology parks in cities across the PRC, so as to ensure that the Company will have sufficient production capacity to fulfill any increased demand for prefabricated units.

### **Internal Control Measures**

As disclosed in the sections headed “PRINCIPAL TERMS OF FRAMEWORK AGREEMENT I” and “PRINCIPAL TERMS OF FRAMEWORK AGREEMENT II”, each time when the Group selects a contractor for the provision of EPC construction services, park design services or product design services, provided that the timetable permits, the Group will consider the quotation from the CMDCD Group or CMDCT Group (as applicable) and compare it with the market prices expected to be charged or offered by other service providers in the city or district in which (in the case of EPC construction services and park design services) the relevant technology park being constructed is located or (in the case of product design services) the prefabricated construction components are to be supplied to customers of the Company (as applicable). The Group will only contract with the CMDCD Group or CMDCT Group (as applicable) under the Framework Agreements if the price quoted by them is lower than, or within the range of, the market price to be charged or offered by independent third parties. As such, there is no guarantee that the CMDCD Group or the CMDCT Group will be selected as the contractor for the provision of the relevant services as there will be other readily available, comparable and competent contractors in the market for the Group to consider other engagements.

To ensure ongoing compliance with such pricing policies, each proposed transaction to be entered into under the EPC Service Arrangement, Park Design Service Arrangement and the PC Design Service Arrangement by the Group shall be approved by the finance department of the Company, so as to enable regular monitoring of the pricing terms of each transaction proposed by the CMDCD Group or the CMDCT Group (as applicable) under the relevant arrangements.

To ensure that the transactions contemplated do not exceed the proposed annual cap or the maximum transaction values of the EPC Service Arrangement, Park Design Service Arrangement and the PC Design Service Arrangement, monthly financial statements of the relevant subsidiaries of the Group setting out the aggregate value of the transactions under (i) the EPC Service Arrangement and Park Design Service Arrangement, and (ii) the PC Design Service Arrangement will be submitted to the finance department of the Company. The finance department of the Company will monitor the aggregate transaction volume under the relevant arrangements so that the annual caps will not be exceeded.

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

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. The PRC

## LETTER FROM THE BOARD

government policies are supportive of the development of the Group's prefabricated construction unit business in the PRC. For example, the 13th Five Year Plan of the PRC for 2016–2020 stated its support for environmental and economical building construction and gradual increase of use of prefabricated construction units. Other PRC government policies which are favorable to the Group's prefabricated construction unit business, such as the directive issued by the Ministry of Housing and Urban-Rural Development of the PRC which requires (i) 15% or more of all newly-constructed buildings in the PRC, and (ii) 20% or more of all newly constructed buildings in certain focused regions to be constructed using prefabricated construction units, will continue to be implemented across the PRC which will help alleviate the negative impact caused by the property cooling off measure in the PRC. As such, the Company believes that the use of and the demand for prefabricated construction units will show an upward growing market trend in 2019. In light of the favorable government policies and a growing market trend, the Company will continuously develop technology parks in 2019 so as to enable it to meet the growing demand for prefabricated construction units and to improve the quality of its prefabricated construction units taking advantage of such PRC government policies.

CMDCT, 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. CMDCD, which engages in design business, has the requisite design capability and qualification to serve as a competent contractor for designing the technology parks of the Group as well as the prefabricated components and products requiring design services. The EPC Service Arrangement contemplated under the Framework Agreement I and the Park Design Service Arrangement and PC Design Service Arrangement contemplated under the Framework Agreement II will thereby enable the Company to leverage on the comparative advantage of the CMDCT Group and CMDCD as general contractors.

In addition, the further collaboration between the Company and CMDCT 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.

The Framework Agreement I will serve as a coherent framework for further cooperation between the parties. By setting out the agreed-in-principle position of the parties on certain key terms in respect of future cooperation, including but not limited to terms in respect of pricing, no prolonged negotiation will be required between the parties in respect of any further cooperation between the parties under the Supply Arrangement and EPC Service Arrangement. In addition, the parties will not be required to go through a new full-blown internal discussion and approval process in respect of the agreed terms set out in the Framework Agreement I each time the parties propose to enter into specific contracts under the Supply Arrangement and EPC Service Arrangement. While the Framework Agreement I will improve project efficiencies and streamline the internal approval process by the parties for such transactions, the Company believe that the internal control measures as detailed in the sub-section headed "INTERNAL CONTROL MEASURES" can effectively enhance the fairness and reasonableness of the transactions entered into pursuant to the Framework Agreement I.

## **LETTER FROM THE BOARD**

### **INFORMATION OF THE PARTIES**

#### **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.

#### **CMDCT**

CMDCT was incorporated in the PRC and it is an indirect wholly-owned subsidiary of CMIC.

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

#### **CMDCD**

CMDCD was incorporated in the PRC and it is an indirect wholly-owned subsidiary of CMIC and a direct wholly-owned subsidiary of CMDCT.

The principal business of CMDCD includes real property design and decoration and product design.

### **LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, CMIC, which held approximately 63.87% of the issued share capital of the Company, is the ultimate controlling shareholder, and hence a connected person, of the Company.

#### **Framework Agreements**

CMDCT 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 I constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

CMDCD 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 Park Design Service Arrangement and the PC Design Service Arrangement under the Framework Agreement II constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the EPC Service Arrangement and the Park Design Service Arrangement are both capital in nature which involve different aspects in the construction of a technology park and CMDCD is a direct wholly-owned subsidiary of CMDCT, the EPC Service Arrangement and the Park Design Service Arrangement require aggregation under Rule 14.22 of the Listing

## LETTER FROM THE BOARD

Rules. As the applicable percentage ratios in respect of the estimated maximum values of the EPC Service Arrangement under Framework Agreement I and the Park Design Service Arrangement under Framework Agreement II over the term of the Framework Agreements exceed 5% but are less than 25%, the EPC Service Arrangement and the Park Design Service Arrangement constitute (i) connected transactions of the Company which are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and (ii) discloseable transactions of the Company which are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Supply Arrangement is of revenue nature and one or more of the applicable percentage ratios in respect of the Proposed Supply Arrangement Annual Cap exceed 5%, the contemplated transaction under the Supply Arrangement constitutes a continuing connected transaction which is subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, as the PC Design Service Arrangement is of revenue nature and the highest applicable percentage ratios in respect of the Proposed PC Design Service Arrangement Annual Cap is more than 0.1% but less than 5%, the contemplated transaction under the PC Design Service Arrangement constitutes a continuing connected transaction which is only subject to the annual review, reporting and announcement requirements and is exempted from the independent shareholders' requirement under Chapter 14A of the Listing Rules.

The Over-lapping Director has abstained from voting on the relevant resolutions for good corporate governance, as he also serves as director of certain shareholders and/or subsidiaries of CMIC.

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

### **RECOMMENDATION**

The Board (including the independent non-executive Directors after taking into consideration the advice from the Independent Financial Adviser but excluding the Over-lapping Director) is of the view that:

- (i) the terms and conditions of the Framework Agreements are on normal commercial terms which are fair and reasonable;
- (ii) the Proposed Supply Arrangement Annual Cap is fair and reasonable; and
- (iii) the Framework Agreements and the transactions contemplated thereunder were 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.



## LETTER FROM THE BOARD

The Directors (excluding the Over-lapping Director) would recommend the Shareholders to vote in favour of the relevant resolution at the SGM.

### SGM

The notice convening the SGM to be held at 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Thursday, 4 July 2019 at 10:30 a.m. is set out on pages 61 to 62 of this Circular.

At the SGM, an ordinary resolution will be proposed to the Independent Shareholders to approve the Framework Agreements (including the Proposed Supply Arrangement Annual Cap) and the transactions contemplated thereunder. Pursuant to the Listing Rules, any vote at the SGM should be taken by poll.

Shareholders with a material interest in the Framework Agreements and the transactions contemplated thereunder will abstain from voting upon the relevant resolution(s) at the SGM. In this respect, Jiayao Global Investments Limited, Jiaheng (Holding) Investment Limited, Jiaxin (Holding) Investment Limited, Jianuo (Holding) Investment Limited, Jiamin (Holding) Investment Limited, Jiacheng (Holding) Investment Limited and Jiayou (International) Investment Limited, each being an indirect subsidiary of CMIC and collectively interested in approximately 63.87% of the total issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting in relation to the relevant resolution at the SGM. As at the Latest Practicable Date, Jiayao Global Investments Limited, Jiaheng (Holding) Investment Limited, Jiaxin (Holding) Investment Limited, Jianuo (Holding) Investment Limited, Jiamin (Holding) Investment Limited, Jiacheng (Holding) Investment Limited and Jiayou (International) Investment Limited collectively controls and is collectively entitled to exercise control over the voting right in respect of 7,159,400,000 Shares. Save for the above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other shareholder of the Company nor its associates is required to abstain from voting at the SGM for the approval of the Framework Agreements and the Proposed Supply Arrangement Annual Cap and the transactions contemplated thereunder.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to Computershare Hong Kong Investor Services Ltd., at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof. An announcement on the results of the SGM will be made by the Company following the SGM in accordance with the Listing Rules.

## LETTER FROM THE BOARD

### ADDITIONAL INFORMATION

Your attention is also drawn to:

- (i) the letter from the Independent Board Committee, the text of which is set out on pages 25 to 26 of this Circular;
- (ii) the letter from the Independent Financial Adviser, the text of which is set out on pages 27 to 56 of this Circular; and
- (iii) the general information set out in the Appendix to this Circular.

Yours faithfully,  
For and on behalf of the Board of  
**China Minsheng DIT Group Limited**  
**Yin Jun**  
*Chairman and Executive Director*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

*The following is the text of the letter of advice from the Independent Board Committee, prepared for the purpose of incorporation into this Circular, setting out its recommendation to the Independent Shareholders regarding the Framework Agreements (including the Proposed Supply Arrangement Annual Cap) and the transactions contemplated thereunder.*



**CHINA MINSHENG DIT GROUP LIMITED**

**中民築友智造科技集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 726)**

14 June 2019

*To the Independent Shareholders*

Dear Sir or Madam,

**FRAMEWORK AGREEMENTS IN RELATION TO  
(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS —  
EPC SERVICE ARRANGEMENT AND PARK DESIGN SERVICE  
ARRANGEMENT;  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS — SUPPLY  
ARRANGEMENT AND PC DESIGN ARRANGEMENT  
AND  
NOTICE OF SGM**

We refer to the circular of the Company to the Shareholders dated 14 June 2019 (the “**Circular**”), of which this letter forms a part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings given to them in the section headed “DEFINITIONS” of the Circular.

We are members of the Independent Board Committee which has been formed by the Board to advise the Independent Shareholders as to whether, in our opinion, (i) the terms and conditions of the Framework Agreements were determined after arm’s length negotiation and are on normal commercial terms which are fair and reasonable, (ii) the Proposed Supply Arrangement Annual Cap is fair and reasonable and (iii) the Framework Agreements and the

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

transactions contemplated thereunder were 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.

We also wish to draw your attention to the letter of advice from Fortune Financial Capital Limited, being the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Framework Agreements (including the Proposed Supply Arrangement Annual Cap), which contains, among other things, Fortune Financial Capital Limited's advice, opinions and recommendations regarding the terms of the Framework Agreements (including the Proposed Supply Arrangement Annual Cap), as set out on pages 27 to 56 of the Circular, and the Letter from the Board as set out on pages 5 to 24 of the Circular.

Having given due consideration to the reasons and factors relating to the Framework Agreements and their terms (including the Proposed Supply Arrangement Annual Cap) and to the advice and the recommendations of Fortune Financial Capital Limited contained in its letter of advice set out on pages 27 to 56 of the Circular, we consider that (i) the terms and conditions of the Framework Agreements were determined after arm's length negotiation and are on normal commercial terms which are fair and reasonable, (ii) the Proposed Supply Arrangement Annual Cap is fair and reasonable and (iii) the Framework Agreements 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.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Framework Agreements, the Proposed Supply Arrangement Annual Cap and the transactions contemplated thereunder.

Yours faithfully,

*Independent Board Committee of*

**China Minsheng DIT Group Limited**

**Mr. Jiang Hongqing      Mr. Lee Chi Ming      Mr. Ma Lishan**

*Independent Non-executive Directors*

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

*The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of Framework Agreements (including the Proposed Annual Cap and the estimated transaction value thereunder), which has been prepared for the purpose of incorporation in the Circular.*

43/F, COSCO Tower  
183 Queen's Road Central  
Hong Kong

14 June 2019

*To the Independent Board Committee and the Independent Shareholders*

China Minsheng DIT Group Limited  
Suites 1001–1004  
10th Floor  
One Pacific Place  
88 Queensway  
Admiralty, Hong Kong

Dear Sir/Madam,

**FRAMEWORK AGREEMENT IN RELATION TO  
(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS —  
EPC SERVICE ARRANGEMENT AND  
PARK DESIGN SERVICE ARRANGEMENT;  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS —  
SUPPLY ARRANGEMENT AND PC DESIGN SERVICE  
ARRANGEMENT**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreements in relation to (i) the EPC Service Arrangement and the Supply Arrangement (including the Proposed Annual Cap for the Supply Arrangement and the estimated transaction values under the EPC Service Arrangement and the Supply Arrangement); and (ii) the Park Design Service Arrangement and the PC Design Service Arrangement (including the estimated transaction values under the PC Design Service Arrangement and the Park Design Service Arrangement). Details of the Framework Agreements are set out in the “Letter from the Board” contained in the circular of the Company dated 14 June 2019 (“**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

## **The Framework Agreements**

Reference is made to the circular of the Company dated 4 June 2018 in relation to a framework agreement dated 2 May 2018 entered into between the Company and CMDCT Group (the “**Previous Framework Agreement**”) in respect of (i) the provision of EPC general contracting services by the CMDCT Group to the Group (i.e. EPC Service Arrangement); and (ii) the supply of prefabricated construction components and products by the Group to the CMDCT Group (i.e. Supply Arrangement).

Taken into consideration that (i) the Previous Framework Agreement already expired on 31 December 2018; (ii) 2 of the 8 secured sites of the Group which were determined to complete Phase One construction of the technology parks under the Previous Framework Agreement had changed the construction plans and required longer time to complete till the second half of 2019; (iii) 1 of the 8 secured sites of the Group which had commenced Phase Two construction of the technology parks under the Previous Framework Agreement in 2018 and is expected to complete in mid-2019; (iv) 5 of the 6 potential sites identified by the Group to construct technology parks under the Previous Framework Agreement was successfully secured in 2018, whilst due to change of the construction plan would require longer time to complete till 2019 or 2020; and (v) the Group has secured 2 new sites and identified 4 new potential sites for the construction of technology parks in 2019, the Company renewed the Framework Agreement in relation to the EPC Service Arrangement and the Supply Arrangement with the intention to complete those transactions fall under the Previous Framework Agreement (the “**Framework Agreement I**”).

In addition, the Company entered into a separate Framework Agreement for provision of the design services by CMDCD to the Company (the “**Framework Agreement II**”), which were previously included as part of the EPC general contracting services provided by CMDCT to the Company.

### *Framework Agreement I*

The Group has entered into a framework agreement dated 3 April 2019 between the Group and CMDCT Group in respect of (i) the EPC Service Arrangement; and (ii) the Supply Arrangement.

Under the EPC Service Arrangement, upon selection of the CMDCT Group through the bidding process arranged by the Group, CMDCT 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.

Under the Supply Arrangement, upon selection of the Group through the bidding process arranged by the CMDCT Group, the Company agreed to supply, or procure its subsidiaries to supply, prefabricated construction components and products to the CMDCT Group for its construction projects engaged by third party developers or contractors.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Framework Agreement II*

The Company has entered into a framework agreement dated 3 April 2019 between the Company and CMDCD in respect of the provision of design services by CMDCD to the Group (i.e. “**Park Design Service Arrangement**” and “**PC Design Service Arrangement**”).

Under the Park Design Service Arrangement, upon selection of CMDCD through the selection process arranged by the Group, CMDCD agreed to provide design services to the Group in respect of the design of the Group’s several technology parks in the PRC.

Under the PC Design Service Arrangement, upon selection of CMDCD through the selection process arranged by the Group, CMDCD agreed to provide design services in respect of the design of prefabricated construction components and products sold by the Group to third parties.

### **LISTING RULES IMPLICATION**

As at the Latest Practicable Date, CMIC, which held approximately 63.87% of the issued share capital of the Company, is the ultimate controlling shareholder, and hence a connected person, of the Company.

#### **The Framework Agreements**

CMDCT 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 I constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

CMDCD 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 Park Design Service Arrangement and the PC Design Service Arrangement under the Framework Agreement II constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the EPC Service Arrangement and the Park Design Service Arrangement are both capital in nature which involve different aspects in the construction of a technology park and CMDCD is a direct wholly-owned subsidiary, and hence a connected person of CMDCT, the EPC Service Arrangement and the Park Design Service Arrangement require aggregation under Rule 14.22 of the Listing Rules. As the applicable percentage ratios in respect of the estimated maximum values of the EPC Service Arrangement under Framework Agreement I and the Park Design Service Arrangement under Framework Agreement II over the term of the Framework Agreements exceed 5% but are less than 25%, the EPC Service Arrangement and the Park Design Service Arrangement constitute (i) connected transactions of the Company which are subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules, and (ii) discloseable transactions of the Company which are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

## **LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

As the Supply Arrangement is of revenue nature and one or more of the applicable percentage ratios in respect of the Proposed Supply Arrangement Annual Cap exceed 5%, the contemplated transaction under the Supply Arrangement constitutes a continuing connected transaction which is subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further, as the PC Design Service Arrangement is of revenue nature and the highest applicable percentage ratios in respect of the Proposed PC Design Service Arrangement Annual Cap is more than 0.1% but less than 5%, the contemplated transaction under the PC Design Service Arrangement constitutes a continuing connected transaction which is only subject to the annual review, reporting and announcement requirements and is exempted from the independent shareholders' requirement 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 management of certain shareholders and/or subsidiaries of CMIC.

### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Jiang Hongqing, Mr. Lee Chi Ming, and Mr. Ma Lishan, has been established to consider, and give advice and recommendation to the Independent Shareholders and the independent financial adviser on the Framework Agreements and the transactions contemplated thereunder as to whether (i) the terms of the Framework Agreements are on normal commercial terms which are fair and reasonable as far as the Independent Shareholders are concerned; (ii) the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the entering into the Framework Agreements and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Company and its subsidiaries, and are in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the resolution relating thereto to be proposed at the SGM, taking into account the recommendation of the Independent Financial Adviser.

### **INDEPENDENT FINANCIAL ADVISER**

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to them as to whether (i) the terms of the Framework Agreements are on normal commercial terms which are fair and reasonable as far as the Independent Shareholders are concerned; (ii) the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the entering into the Framework Agreements and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Company and its subsidiaries, and are in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the resolution relating thereto to be proposed at the SGM, taking into account the recommendation of the Independent Financial Adviser.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company with regard to the connected transactions under the Framework Agreements. Save for the aforesaid engagement, we have not acted as independent financial adviser to the Company in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Framework Agreements (including the Proposed Annual Caps and the estimated transaction values) and the transactions contemplated thereunder is at market level and not conditional upon successful passing of the resolution, and that our engagement is on normal commercial terms, we are independent of the Company.

### **BASIS OF OUR ADVICE**

In formulating our opinion, we have reviewed, amongst others, (i) the Framework Agreement entered into between the Group and CMDCT Group; (ii) the Framework Agreement entered into between the Group and CMDCD; (iii) the previous Framework Agreements; (iv) the annual report of the Company for the year ended 31 December 2017 (“**2017 Annual Report**”); (v) the annual report of the Company for the year ended 31 December 2018 (“**2018 Annual Report**”); (vi) other information as set out in the Circular; and (vii) the Company’s development plan on the respective technology parks (including those announcements issued by the Company on 13 September 2018 and 20 November 2018, respectively).

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (“the **Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts and omission of which would make any statement in the Circular misleading.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry and have relied on such statements, information, opinions and representations. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group. The Company will notify the Shareholders of any material change after the Latest Practicable Date and after the dispatch of the Circular.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE DISCLOSEABLE AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION**

In arriving at our opinion and recommendation, we have considered the principal factors and reasons set out below:

#### **1.1 Background information of the Group and its relationship with the CMDCT Group and CMDCD**

The Group was principally engaged in the research and development, design, manufacture sale of assembled building prefabricated units, licensing and property investment in the PRC. As at the Latest Practicable Date, CMIC, which held approximately 63.87% of the issued share capital of the Company, is the ultimate controlling shareholder of the Company.

CMDCT was incorporated in the PRC and is an indirect wholly-owned subsidiary of CMIC. The principal business of CMDCT includes real property construction and decoration, installation of mechanical and electrical equipment, construction of base foundation and infrastructure. CMDCT possesses a qualification license (Level 1: “房屋建築工程施工總承包企業一級資質”) issued by the Ministry of Housing and Urban-Rural Development of the PRC, which permits it to undertake real property construction, installation of mechanical and electrical equipment and construction of base foundation and infrastructures.

CMDCD was incorporated in the PRC and is an indirect wholly-owned subsidiary of CMIC and a direct wholly-owned subsidiary of CMDCT. The principal business of CMDCD includes real property design and decoration and product design.

## **1.2 Latest business development and performance of the Group**

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. According to the Management, due to the demand for business and technological development and requirements, the Group 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.

Over the past three years, the Group has strived to secure suitable sites for the construction of technology parks.

As described in the circular of the Company dated 4 June 2018 with regard to the EPC Service Arrangement under the Previous Framework Agreement, the Group had secured 8 sites and identified 6 potential sites for the development of technology parks. As at the Latest Practicable Date, the Group had secured 16 sites and identified 2 potential sites for the development of technology parks. The following are the latest development with regard to the EPC Service Arrangement under the Framework Agreement I.

- (i) 2 of the 8 secured sites of the Group (i.e. No. 6 and No. 7 sites set out in the table below) which were determined to complete Phase One construction of the technology parks under the Previous Framework Agreement in 2018 had changed the construction plans and required longer time to complete in September and November 2019 for No. 6 and No. 7 sites, respectively;
- (ii) 1 of the 8 secured sites of the Group (i.e. No. 5 site set out in the table below) which had commenced Phase Two construction of the technology parks under the Previous Framework Agreement in 2018 and is expected to complete in June 2019;
- (iii) 5 of the 6 potential sites previously identified by the Group (i.e. No. 8 to No. 12 sites set out in the table below) to construct technology park under the Previous Framework Agreement was successfully secured in 2018;
- (iv) Among the aforesaid 5 sites secured in 2018, the construction plan of three technology parks has been changed, which required longer time to complete till September 2019 (i.e. No. 8 and No. 11 sites set out in the table below) and June 2020 (i.e. No. 12 site set out in the table below), respectively;

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- (v) the Group successfully acquired 2 new sites (i.e. No. 16 and No. 18 sites set out in the table below) for the construction of technology parks in July and November 2018, respectively, which construction for No. 16 site is expected to commence in June 2019 and complete in June 2020 while that for No. 18 site commenced in January 2019 and is expected to complete in August 2019; and
- (vi) the Group has identified 2 new potential sites for the construction of technology parks in 2019 (i.e. No. 15 and No. 17 sites set out in the table below).

As described in the circular of the Company dated 4 June 2018 with regard to the Supply Arrangement under the Previous Framework Agreement, the Group had 9 production facilities (i.e. No. 1, No. 2, No. 3, No. 4, No. 5, No. 9, No. 10, No. 13 and No. 14 sites set out in the table below), of which 1 site is a leased facility (i.e. No. 14 site set out in the table below) and the rest are owned by the Group. As at the Latest Practicable Date, the following are the latest development with regard to the Supply Arrangement under the Framework Agreement I:

- (vii) 2 secured sites for Phase One construction of technology parks (i.e. No. 6 and No. 7 sites set out in the table below) are expected to complete in 2019 and will increase the Group's production capacities in September and November 2019;
- (viii) 1 secured site for Phase Two construction of technology parks (i.e. No. 5 site set out in the table below) are expected to complete in 2019 and will increase the Group's production capacities in June 2019; and
- (ix) 3 newly secured site for construction of technology parks (i.e. No. 8, No. 11 and No. 18 sites set out in the table below) in which No. 8 and No. 11 sites are expected to complete in September 2019 and No. 18 site is expected to complete in November 2019, and, if materialised, will further increase the production capacity in 2019.

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Set out below is a table summarising the salient details of the respective technology parks:

No.	Location	Date acquired	Site area (sq.m)	Phase One construction as disclosed in 2018 Circular (sq.m)	Actual/ expected Phase One construction area (sq.m)	Actual/expected date of completion of Phase One construction	Phase Two construction as disclosed in 2018 Circular (sq.m)	Actual/expected Phase Two construction area (sq.m)	Actual/ expected date of commencement of Phase Two construction	Actual/expected date of completion of Phase Two construction	Reason of the variance	Year of commencement of production	Designed production capacity (c.u.m.)	Expected production capacity in the year ending 2019 (c.u.m.)
1	Changsha (Note 1)	14/9/2016	235,000	30,000	30,000	2Q 2015	30,000	30,000	2Q/3Q 2017	3Q 2018	N/A	2H 2016	300,000	90,000-120,000
2	Hengyang	28/10/2015	100,000	41,000	41,000	3Q 2016	20,000	20,000	3Q/4Q 2017	4Q 2017	N/A	2H 2016	180,000	60,000-80,000
3	Nanjing	22/3/2016	100,838	40,000	40,000	3Q 2016	25,000	25,000	3Q/4Q 2017	4Q 2017	N/A	2H 2016	300,000	90,000-120,000
4	Foshan (Note 2)	28/10/2016	82,066	30,000	30,000	2Q 2017	N/A	N/A	N/A	N/A	N/A	2H 2017	150,000	60,000-80,000
5	Heifei (Note 3, 8)	28/6/2017	102,600	30,000	30,000	2Q 2017	N/A	26,000	3Q 2018	2Q 2019	N/A	2H 2017	180,000	60,000-80,000
6	Jiaozhou (Note 4, 8)	30/9/2017	62,000	20,000	20,000	4Q 2017	N/A	N/A	N/A	N/A	A	1H 2019	150,000	60,000-80,000
7	Yuxi (Note 5)	14/9/2017	73,898	20,000	20,000	4Q 2017	N/A	N/A	N/A	N/A	A	1H 2019	150,000	60,000-80,000
8	Haikou (Note 6, 8)	26/10/2018	60,054	20,000	20,000	4Q 2018	N/A	N/A	N/A	N/A	A	1H 2019	150,000	40,000-50,000
9	Xinwu (Note 8)	14/6/2018	53,467	20,000	20,000	2Q 2018	N/A	N/A	N/A	N/A	N/A	2H 2018	150,000	40,000-50,000
10	Xiangtan (Note 8)	26/5/2018	65,967	20,000	20,000	2Q 2018	N/A	N/A	N/A	N/A	N/A	2H 2018	150,000	40,000-50,000
11	Huai'an (Note 7)	12/4/2018	80,000	20,000	20,000	4Q 2018	N/A	N/A	N/A	N/A	A	1H 2019	150,000	40,000-50,000
12	Qiyang	7/2/2018	60,040	20,000	20,000	4Q 2018	N/A	N/A	N/A	N/A	A	1H 2020	150,000	N/A
13	Huang (Note 8)	4/8/2015 (Note 9)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2H 2016	180,000	60,000-80,000
14	Kunshan (Note 8)	N/A (Note 10)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2H 2016	120,000	40,000-60,000
15	Jiang (Note 8)	N/A (Note 11)	N/A	N/A	20,000	2Q 2019	N/A	N/A	N/A	N/A	N/A	2H 2020	150,000	N/A
16	Jiangxia (Note 8)	3/7/2018	51,990	20,000	20,000	2Q 2019	N/A	N/A	N/A	N/A	N/A	2H 2020	150,000	N/A
17	Dongli (Note 8)	N/A (Note 11)	55,475	20,000	20,000	3Q 2019	N/A	N/A	N/A	N/A	N/A	2H 2020	150,000	N/A
18	Lian (Note 8)	7/11/2018	80,446	N/A	18,000	1Q 2019	N/A	N/A	N/A	N/A	N/A	2H 2019	250,000	20,000-30,000

### Abbreviations:

A — Change of construction schedule  
N/A — Not applicable

2018 Circular — a circular issued by the Company dated 4 June 2018 in relation to the Previous Framework Agreement

### Notes:

- The Phase Two construction area of Changsha technology park has been completed in 3Q 2018 and commenced production in 1Q 2019.
- The construction area in Foshan technology park, including the renovation of office building, has been completed in 1Q 2019.
- None of the Phase Two construction area of Heifei technology park has been completed by 2018. The remaining construction area of approximately 26,000 sq.m. of the construction area will only be completed by 2Q 2019, and such construction activities had been undertaken under the Previous Framework Agreement.
- Approximately 17,000 sq.m. of the construction area of Jiaozhou technology park has been completed by 2018. Due to a change in construction schedule, approximately 3,000 sq.m. of the construction area will only be completed by 3Q 2019, and such construction activities had been undertaken under the Previous Framework Agreement.

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5. Approximately 12,000 sq.m. of the construction area of Yuxi technology park has been completed by 2018. Due to a change in construction schedule, approximately 8,000 sq.m. of the construction area will only be completed by 4Q 2019, and such construction activities had been undertaken under the Previous Framework Agreement.
6. Approximately 6,000 sq.m. of the construction area of Haikou technology park has been completed by 2018. Due to a change in construction schedule, approximately 14,000 sq.m. of the construction area will only be completed by 3Q 2019, and such construction activities had been undertaken under the Previous Framework Agreement.
7. Approximately 10,000 sq.m. of the construction area of Huaifan technology park has been completed by 2018. Due to a change in construction schedule, approximately 10,000 sq.m. of the construction area will only be completed by 3Q 2019, and such construction activities had been undertaken under the Previous Framework Agreement.
8. The aggregate estimated construction area of the 10 technology parks to be carried out in the year ending 31 December 2019 = 26,000 sq.m. (Heifei) + 155,500 sq.m. (Technology Park No. 5 to 8, No. 11 to 12 and No. 15 to 18) = 181,500 sq.m.
9. No. 13 site was acquired from an independent third party and no construction activities is required for the commencement of production.
10. No. 14 site was rented from an independent third party and no construction activities is required for the commencement of production.
11. The Group is currently in the progress of negotiating such acquisitions with the local governments.
12. Construction of technology parks No. 1 to 4, No. 9 to No. 10 and No. 13 were completed. Construction of technology park No. 5 was substantially completed (see Note 3). Technology park No. 14 was leased from third party to the Group and the Group is not responsible for its construction.
13. CDMCT Group has been successfully selected after a bidding or selection process as the construction contractor for the abovementioned sites.
14. It is also assumed that the Group has been selected after a bidding process as the supplier of the prefabricated construction components and products for CDMCT Group.

The Group recorded revenue generated from sales of prefabricated units of approximately HK\$173.6 million and HK\$423.6 million for the years ended 31 December 2017 and 2018, respectively. The increase in revenue was mainly attributable to the utilised capacity of technology parks for the manufacturing and sale of prefabricated units continuously increased during the year

### **1.3 Prospects of the Group**

As disclosed in the 2018 Annual Report, the Company noted the prefabricated construction industry has changed from rapid growth period to an era that focuses on mature and stable development, premium quality, technology and management abilities with supportive policies published to stimulate the development of the industry throughout the country. Two major goals have been proposed in the Action Plan for the Thirteenth Five-Year Prefabricated Construction published by the Ministry of Housing and Urban-Rural Development of the PRC, 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) over 20%, 15% and 10% or more of all newly-constructed buildings in the first-, second- and third-tier areas, respectively. In particular, the Group has signed eight investment agreements for the following cities: Dongli (Tianjing), Wuxi (Jiangsu), Bengbu (Anhui), Xuzhou (Jiangsu), Wen'an (Hebei), Weishi (Henan), Jinhua (Zhejiang) and Changde (Hunan). The direct investment arrangement of Green construction technology parks over 22 provinces and 48 cities has been completed in the main. As one of the leading industry participants, the Group continues to formulate its standards and rules with energy conservation and environmental protection, and will devote in developing critical technologies for all aspects of its system with the strategic goal of “Green Development”.

On the basis of the aforesaid background, the Group will continue to focus on the research and development to take clean production and energy conservation technologies to the next level so as to improve the techniques and discover new manufacturing solutions to achieve its strategic goal.

### **1.4 Section summary**

Taking into account of the principal activities of the Group, the Company's strategy to continue to develop its industrialised and prefabricated construction capabilities under the abovementioned market trends and national policy, we consider the Framework Agreements and the transactions contemplated thereunder adhere to the business strategy of the Company, and is in the ordinary and usual course of business of the Company.

## **2 Reasons for and benefits of entering into the Framework Agreements**

The reasons for entering into the Framework Agreements are described in the paragraph headed “Reasons for and benefits of entering into the Framework Agreements” in the “Letter from the Board” of the Circular. In addition, the Company's strategy is to continue to develop its industrialised and prefabricated construction capabilities under the abovementioned market trends and national policy, we consider the Framework Agreements and the transactions contemplated thereunder adhere to the business strategy of the Company.

Given CMDCT, which is engaged in the 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 as well as the prefabricated components and products requiring design services. The EPC Service Arrangement contemplated under the Framework Agreement I and the Park Design Service Arrangement and PC Design Service Arrangement contemplated under the Framework Agreement II will thereby enable the

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Company to leverage the comparative advantage of the CMDCT Group and CMDCD as general contractors. In addition, the further collaboration between the Company and CMDCT Group 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 I, it will serve as a coherent framework for further cooperation amongst the parties and improve project efficiencies and approval process for such transactions.

With regard to the EPC Service Arrangement under the Framework Agreement, procurement of EPC Service Arrangement contemplated under the Framework Agreement I and the Park Design Service Arrangement and PC Design Service Arrangement contemplated under the Framework Agreement II from CMDCT Group and CMDCD will be conducted on fair and reasonable terms and there are potentially other comparable service providers and designers for the Group to procure such services from. Notwithstanding the execution of the Framework Agreements, each time when the Group selects a contractor for the construction and design of a technology park, it is expected to undergo a selection process under which the Group will obtain quotations from several contractors, including CMDCT Group and CMDCD, 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 CMDCT Group and CMDCD were to be engaged for undertaking the construction of a particular technology park, there is no guarantee that they will be selected as the contractors 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 engagement.

Having considered the above, the Directors believe and we concur that the Framework Agreements and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

### **3 Principal terms of the Framework Agreements**

Details of the Framework Agreements are set out in the "Letter from the Board" of the Circular.

#### ***3.1 Duration***

It is designed for a term commencing from the approval date of the Framework Agreements by the Independent Shareholders and ending on 31 December 2019. The Framework Agreements 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.

By entering the Framework Agreements, the Directors believe and we concur that it is a practical approach to fix a term with the possibility to extend or renew after 31 December 2019 so as to provide the Group flexibility to work with its EPC service providers (including the CMDCT Group) and its customers for prefabricated construction components and products (including the CMDCT Group).



## **3.2 Pricing**

### *3.2.1 With regard to the Framework Agreement I*

#### EPC Service Arrangement

The contractual price is determined by the parties after arm's length negotiation with reference to the estimated costs of a construction project plus a profit margin and management fee of not more than 5% of the construction costs. According to the Management and as set out in the Framework Agreement, 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 for EPC general contracting service will not be higher than the market rate within the industry.

According to the Management, the estimated costs of a construction project will be derived by reference to the existing price list of materials used for the construction services and the historical pricing for the construction of the Group's technology parks in the PRC by Independent Third Party contractors. Given that the price list of materials used for the construction services in the PRC are publicly available and fully transparent, the Management is able to assess the fairness and reasonableness of the estimated costs of a construction project quoted by the CMDCT Group and other independent construction contractors.

Also, according to the Management, a project management fee as a percentage of the construction cost will normally be charged by the construction project contractor, and the amount of such fee will depend on the contract size, the duration of the project and the complexity of project. As the prices of materials and construction costs are updated by the Management from time to time based on publicly available data updating every month on regional official authority websites, the Management will be able to derive the construction cost of the relevant project, and, in turn, estimate the project management fees payable by the Group to the CMDCT Group (if it has been selected to provide EPC Service).

Having reviewed the pricing policy of determining the contractual price for EPC general contracting service (i.e. estimated costs of a construction project plus a profit margin and management fee of not more than 5% of the construction costs) and compared, on a sampling basis, (i) the breakdown of estimated costs in relation to the Group's construction projects undertaken by CMDC Group during the year ended 31 December 2018; (ii) the actual clearing statements issued by CMDC Group to the Group at project completion to confirm the transaction amounts for EPC general contracting service provided; and (iii) invoices issued by the CMDC Group to the Group, we are of the view that the aforesaid policy has been properly implemented. In addition, having discussed with the Management and the management of the CMDCT Group responsible for construction works and reviewed 10 sample contracts, we noted that the project management fees offered by the

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CMDCT Group (with regard to the EPC Service) to the Group was either the same or slightly better than those offered by the CMDCT Group to its other Independent Third Party customers.

According to the Management, each time when the Group selects a contractor for the construction of a technology park, the Group will consider the quotation from the CMDCT Group and compare it with the market price expected to be charged or offered by other service providers in the relevant local market. Given that there are only a few licensed market players in the EPC service industry in China, the pricing of other EPC services customers are transparent to the customers and can be obtained through making enquiries with market participants. Where the construction timetable of the relevant technology park permits, the Group may also invite price quotations from at least 2 independent EPC service suppliers for review and comparison purpose.

Having discussed with the Management and reviewed internal records of contractor selection process for previous projects, we noted that no price quotations has been obtained from independent suppliers for each technology parks which commenced constructions in 2018 due to time constraints, but the Group has invited price quotations from independent suppliers which covered seven technology parks. We consider the selection process of contractors is complied by the Company since it is allowed under such situation according to the policy. Given that (i) we have reviewed timetables of proposed projects; (ii) reviewed internal checklist approved by heads of different departments with explanation of not seeking quotations from independent suppliers for certain technology parks; (iii) ensured the selection of contractors has adhered to the policy prescribed by the Company; (iv) the CMDCT Group has ample experience in the industry and can give timely response; and (v) quotations provided by the CMDCT Group are slightly better than the publicly available construction costs, we are of the view that the price and selection process are fair and reasonable when there is no independent supplier involved for certain technology parks.

Based on (i) the internal control measures adopted by the Group, in particular the selection process of contractors; and (ii) discussions with the management team of the Company, including the chief financial officer of the Group and the manager responsible for the EPC Service Arrangement in the PRC; (iii) internal records of contractor selection process for previous projects; and (iv) the construction timetables of the relevant technology parks with regard to the EPC Service Arrangement under the Framework Agreement as described in the paragraph headed “1.1.2 Latest business development and performance of the Group” of this letter, we are of the view that the selection process of contractors have been properly complied with by the Company. We understand that when Independent Third Party quotations were obtained as time permits, the Group will only enter into contracts with the CMDCT Group under the Framework Agreement if the price quoted by the CMDCT 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 in the same local markets.

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In order to assess whether the internal control measures are sufficient for monitoring the pricing mechanism and transaction volume, we have reviewed the internal control measures adopted by the Group and conducted discussion with the management team of the Company, including the chief financial officer of the Group and the manager responsible for the EPC Service Arrangement in the PRC. We noted that the Management had updated the prices of materials and construction costs from time to time based on publicly available data and had each proposed transaction to be entered into under the EPC Service Arrangement be approved by the finance department of the Company so as to enable regular monitoring of the pricing terms. To ensure that the transactions contemplated do not exceed the proposed annual cap or the maximum transaction values of the EPC Service Arrangement, we noted that monthly financial statements of the relevant subsidiaries of the Group setting out the aggregate value of the transactions had been submitted to the finance department of the Company.

Based on the above, we consider that the internal control measures of the Group are in place to safeguard the subject transactions to be carried out in a fair and reasonable manner and in the interests of the Company's shareholders as a whole. In addition, the Management believes, and we concur, that the internal control measures of the Group are sufficient for the purpose of monitoring the contractor selection, pricing mechanism and transaction volume for conducting the EPC Service Arrangement.

Having taken into account the aforesaid, we are of the view that the pricing mechanism under the EPC Services Arrangement is fair and reasonable.

### Supply Arrangement

According to the Management, the pricing for the Supply Arrangement is determined by the parties after arm's length negotiation. The integrated unit price of the prefabricated construction components and products to be supplied by the Group to the CMDCT Group should be the prevailing market price of each unit and the price quotation to be provided by the Group should be determined with reference to the estimated costs of each unit plus a profit margin of not more than 10% of the unit cost. According to the Management and as set out in the Framework Agreement, the integrated unit price should not exceed RMB3,000 per cubic metre (including tax).

Given that the price list of materials used for the construction services (i.e. including the prefabricated construction components and products) in the PRC are publicly available and fully transparent, both the Group and its customers (including the CMDCT Group) are able to assess the prevailing market price per unit of such prefabricated construction components and products. Having reviewed the pricing policy of determining the pricing for Supply Arrangement (i.e. estimated costs of each unit plus a profit margin of not more than 10% of the unit cost) and compared, on a sampling basis, (i) the breakdown of unit production costs in relation to the Group's prefabricated construction components and products supplied to CMDC

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Group during the year ended 31 December 2018; (ii) the actual clearing statements issued by the Group to CMDC Group to confirm the transaction amounts for the sales of prefabricated construction components and products; and (iii) invoices issued by the Group to the CMDC Group, we are of the view that the aforesaid policy has been properly implemented.

According to the Management, in preparing the price quotation, the Group will make reference to the prevailing market price per unit, the cost of the Group, the duration of the project, the complexity of the project and the terms of the existing contracts entered between the Group and other Independent Third Party customers to ensure the pricing for the Supply Arrangement is fair and reasonable and on normal commercial terms.

In order to assess whether the internal control measures are sufficient for monitoring the pricing mechanism, we have reviewed the internal control measures adopted by the Group and conducted discussion with the management team of the Company, including the chief financial officer of the Group and the manager responsible for the Supply Arrangement in the PRC. We noted that 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 the CMDCT 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. Furthermore, as the Supply Arrangement is a 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 other 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.

Based on the above, we consider that the internal control measures of the Group are in place to safeguard the subject transactions to be carried out in a fair and reasonable manner and in the interests of the Company's shareholders as a whole. In addition, the Management believes, and we concur, that the internal control measures of the Group are sufficient for the purpose of monitoring the pricing mechanism for conducting the Supply Arrangement.

Having taken into account the aforesaid, we are of the view that the pricing mechanism under the Supply Arrangement is fair and reasonable.

*3.2.2 With regard to the Framework Agreement II*

Park Design Service Arrangement

Pursuant to the Park Design Service Arrangement, the contractual price for the design services to be provided by CMDCD to the Group is determined with reference to the estimated costs of the design services plus a profit margin and management fee of not more than 5% of the design costs. In principle, the contractual price for park design services should not exceed RMB25 per square metre (including tax). CMDCD further undertakes to the Company that the contractual price for park design services to be quoted by CMDCD will not be higher than the market rate within the industry.

Considering that the park design services provided by CMDCD to the Group were previously included as part of the EPC general contracting services provided by CMDCT Group to the Group and a separate agreement (i.e. Framework Agreement II) has been newly entered into for the year ending 31 December 2019, we have reviewed the pricing policy of determining the contractual price for the park design services (i.e. design costs plus not more than 5% of profit margin and management fee), we are of the view that the aforesaid policy has been properly put in place.

Based on (i) the internal control measures adopted by the Group to monitor the pricing mechanism; and (ii) conducted discussion with the management team of the Company, we understand that each time when the Group selects a contractor for the provision of park design services, provided that the timetable permits, the Group will consider the quotation from the CMDCD Group and compare it with the market prices expected to be charged or offered by other service providers in the city or district in which the relevant technology park being constructed is located. The Group will only contract with the CMDCD Group if the price quoted by them is lower than, or within the range of, the market price to be charged or offered by independent third parties. In addition, we noted that each proposed transaction to be entered into under the Park Design Service Arrangement will be approved by the finance department of the Company to enable regular monitoring of the pricing terms, and monthly financial statements of the relevant subsidiaries of the Group setting out the aggregate value of the transactions will be submitted to the finance department of the Company to ensure that the transactions contemplated do not exceed the maximum transaction values of the Park Design Service Arrangement. The Management believes, and we concur, that internal control measures are in place to safeguard the subject transactions to be carried out in a fair and reasonable manner and in the interests of the Company's shareholders as a whole.

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### PC Design Service Arrangement

Pursuant to the PC Design Service Arrangement, the contractual price for the design services in respect of the design of the prefabricated construction components and products to be sold by the Group to third parties should be determined with reference to the estimated costs of the design services plus a profit margin and management fee of not more than 5% of the design costs. In principle, the contractual price for product design services should not exceed RMB70 per cubic metre (including tax). CMDCD further undertakes to the Company that the contractual price for product design services to be quoted by CMDCD will not be higher than the market rate within the industry.

Given that the Group has newly entered into an agreement (i.e. Framework Agreement II) with CMDCD in respect of the provision of design services for prefabricated construction components and products sold by the Group to third parties or the year ending 31 December 2019, we have reviewed the internal policy of determining the contractual price for the PC design services (i.e. design costs plus not more than 5% of profit margin and management fee), we are of the view that the aforesaid policy has been properly put in place.

Based on (i) the internal control measures adopted by the Group to monitor the pricing mechanism; and (ii) conducted discussion with the management team of the Company, we understand that each time when the Group selects a contractor for the provision of product design services, provided that the timetable permits, the Group will consider the quotation from the CMDCD Group and compare it with the market prices expected to be charged or offered by other service providers in the city or district in which the relevant technology park being constructed is located. The Group will only contract with the CMDCD Group if the price quoted by them is lower than, or within the range of, the market price to be charged or offered by independent third parties. In addition, we noted that each proposed transaction to be entered into under the Park Design Service Arrangement will be approved by the finance department of the Company to enable regular monitoring of the pricing terms, and monthly financial statements of the relevant subsidiaries of the Group setting out the aggregate value of the transactions will be submitted to the finance department of the Company to ensure that the transactions contemplated do not exceed the maximum transaction values of the PC Design Service Arrangement. The Management believes, and we concur, that internal control measures are in place to safeguard the subject transactions to be carried out in a fair and reasonable manner and in the interests of the Company's shareholders as a whole.

#### **4 Payment arrangement of the Framework Agreements**

The Framework Agreements provides that the details of all fees and payments due to the Group and the CMDCT Group and CMDCD 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.

##### ***4.1 With regard to the Framework Agreement I***

###### *EPC Service Arrangement*

According to the Management, the payment arrangement between the Company and the CMDCT Group with regard to the EPC Service Arrangement is set out as follow:

- (i) The Group shall pay the project progress payment to the CMDCT Group every month based upon the construction progress, until the cumulative payment amount reaches 70% of the contract sum;
- (ii) Upon completion and settlement of the project, 95% of the final settlement price shall be paid; and
- (iii) The remaining 5% shall be paid one-off when the warranty period of deficiency (i.e. usually two years) expires and no quality issue has arisen.

Having discussed with Management and by reviewing 10 sample contracts, we noted that the payment terms granted by the independent third party construction contractors in the PRC are similar to that offered by the CMDCT Group to the Group under the EPC Arrangement. We further understand from the Management that this is CMDCT Group's practice and in line with the terms offered by the CMDCT Group to its other independent third party customers. Taking into account the above, we are of the view that the payment method of the EPC Service Arrangement is fair and reasonable and on normal commercial terms.

###### *Supply Arrangement*

According to the Management, the payment arrangement between the Company and the CMDCT Group for Supply Arrangement is set out as follows:

- (i) The CMDCT Group shall make a prepayment to the Group within 10 days after the entering into of the supply contract, which shall account for 10% of the contract sum of the supply contract;
- (ii) The CMDCT Group shall pay the project progress payment to the Group every month according to the working progress, until the cumulative payment amount reaches 70% of the contract sum;
- (iii) Upon completion and settlement of the project, 95% of the final settlement price shall be paid; and

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- (iv) The remaining 5% shall be paid one-off when the warranty period of decency (i.e. usually two years) expires and no quality issue has arisen.

We have compared the payment terms offered by the Group to its independent third party customers (i.e. by reviewing 13 randomly selected sample contracts) with that offered by the Group to the CMDCT Group and noted that the payment terms applied to the CMDCT Group are similar to those in the existing contracts entered into between the Group and other independent third party customers. Taking into account the above, we are of the view that the payment method of the Supply Arrangement is fair and reasonable and on normal commercial terms.

### **4.2 With regard to the Framework Agreement II**

#### *Park Design Service Arrangement*

According to the Management, the payment arrangement between the Company and the CMDCT Group for the Park Design Service Arrangement is set out as follows:

- (i) The CMDCT Group shall make a deposit to the Group within 7 days after entering into of the contract, which shall account for 5% of the contract sum of the contract;
- (ii) The CMDCT Group shall pay the project progress payment to the Group according to the working progress, until the cumulative payment amount reaches 90% of the contract sum;
- (iii) Upon completion and settlement of the project, 95% of the final settlement price shall be paid; and
- (iv) The remaining 5% shall be paid one-off when the warranty period of deficiency (i.e. usually two years) expires and no quality issue has arisen.

Having discussed with Management and by reviewing the contract terms, we noted that the payment terms granted by the independent third party construction contractors in the PRC are similar to that offered by the CMDCD to the Group under the Park Design Services Arrangement. We further understand from the Management that this is CMDCD's practice and in line with the terms offered by the CMDCD to its other independent third party customers. Taking into account the above, we are of the view that the payment method of the EPC Service Arrangement is fair and reasonable and on normal commercial terms.



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### *PC Design Service Arrangement*

According to the Management, the payment arrangement between the Company and the CMDCT Group for the PC Design Service Arrangement is set out as follows:

- (i) The CMDCT Group shall make a deposit to the Group within 7 days after the entering into of the contract, which shall account for 20% of the contract sum of the contract;
- (ii) The CMDCT Group shall pay the project progress payment to the Group according to the working progress, until the cumulative payment amount reaches 90% of the contract sum;
- (iii) Upon completion and settlement of the project, 95% of the final settlement price shall be paid; and
- (iv) The remaining 5% shall be paid one-off when the warranty period of deficiency (i.e. usually two years) expires and no quality issue has arisen.

Having discussed with Management and by reviewing the contract terms, we noted that the payment terms granted by the independent third party construction contractors in the PRC are similar to that offered by the CMDCD to the Group under the PC Design Service Arrangement. We further understand from the Management that this is CMDCD's practice and in line with the terms offered by the CMDCD to its other independent third party customers. Taking into account the above, we are of the view that the payment method of the PC Design Service Arrangement is fair and reasonable and on normal commercial terms.

## **5 Historical and Proposed Transaction Value and Annual Cap**

### ***5.1 Historical transaction value and annual caps under Framework Agreement I***

#### *5.1.1 Historical transaction value for the EPC Service Arrangement*

The estimated maximum transaction value for the EPC Service Arrangement in the Previous Framework Agreement expired on 31 December 2018 was RMB400 million. The actual transaction value for EPC Service Arrangement for the year ended 31 December 2018 was approximately RMB315.4 million, representing approximately 78.9% of the then proposed annual cap.

We have discussed with the Management and noted the key reasons attributable to the utilisation rate of the then proposed annual cap as mentioned above were the effect of those reasons for entering into the Framework Agreement I. In particular, we note that:

- (i) due to change of construction plans which, in turn, required longer time to complete till 2019, some of the transaction value for the EPC Service Arrangement are to be deferred to the year ending 31 December 2019;

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- (ii) whilst the Group had successfully acquired seven new sites for construction of technology parks in 2018, which construction had commenced in 2018 and is expected to continue to carry out in 2019, the transaction value used by these three sites in 2018 was less than the transaction value for the EPC Service Arrangement originally planned for the usage by a site during the year ended 31 December 2018, whereby the variance was captured as unused in the year ended 31 December 2018.

Given the change in construction plans, the time to successfully acquire a site and the market demand of prefabricated construction components and products are subject to change due to various factors uncontrolled by the Group, hence the Management believes and we concur that the proposed annual cap not being fully utilised in the past has no bearing on the fairness and reasonableness of the basis to determine the then proposed annual cap.

### *5.1.2 Historical transaction value for the Supply Arrangement*

The proposed annual cap for the Supply Arrangement as contemplated in the Previous Framework Agreement was RMB300 million. However, the actual transaction amount for the Supply Arrangement in 2018 was approximately RMB126.5 million, representing approximately 42.2% of the then proposed annual cap.

We have discussed with the Management and noted the key reasons attributable to the low utilisation rate of the then proposed annual cap were as follows:

- (i) the deviation was a result of the property cooling measures imposed by the PRC government during 2018. Due to the imposition of such measures, the amount of real estate construction projects has decreased, and the progress of the existing construction projects have been delayed, each of which contributed to the declined demand for prefabricated units;
- (ii) further, notwithstanding that the PRC government has deployed several favourable government policies in the PRC in respect of prefabricated units (such as the directive issued by the Ministry of Housing and Urban-Rural Development of the PRC which requires a certain percentage of newly constructed buildings to be prefabricated buildings), the implementation of these policies in some regions of PRC (in particular, the Central and Western part of mainland China) remains unsatisfactory.

As a result of the above, the demand of prefabricated units in the PRC has been affected and the Company has therefore not achieved the projected sales amount of prefabricated units in the year ended 31 December 2018. Given the market demand of prefabricated construction components and products are subject to change due to various factors uncontrolled by the Group, the Management believes and we concur that the relatively low utilisation rate of the proposed annual cap in the past have no bearing on the fairness and reasonableness of the basis to determine the then proposed annual cap.

## **5.2 Proposed transaction value and annual caps**

### **5.2.1 Estimated transaction value for the EPC Service Arrangement under the Framework Agreement I**

When arriving at our view with regard to the estimated maximum value of the transactions under the EPC Service Arrangement under Framework Agreement I of RMB250 million for the year ending 31 December 2019, we have (i) reviewed several service contracts samples signed between the Group and independent third parties; (ii) discussed with the Management regarding the estimated costs and construction plans of the 8 secured sites (*Note 1*); and (iii) discussed with the Management regarding the budget costs and expected construction plans for the 2 potential sites (*Note 2*) currently under negotiation or identified by the Group. We have also considered the following factors in determining the estimated maximum transaction value:

- (i) According to the Management, assuming CMDCT Group has been successfully selected after a bidding process, the aggregate estimated construction area of the abovementioned 10 technology parks is approximately 281,500 square metres. Given the constructions of certain technology parks were (i) commenced prior to the year ending 31 December 2019; or (ii) commenced or scheduled to commence, while expected to complete after the year ending 31 December 2019, the Management expects that construction work will only be carried out on approximately 120,000 square metres during the year ending 31 December 2019, which was estimated by the Management with reference to the individual construction timetable for each technology park;
- (ii) The construction plan and duration of the 10 technology parks during the year ending 31 December 2019 which are set out in the section headed “Latest business development and performance of the Group” above;
- (iii) The maximum contractual price of RMB2,600 per square metre (inclusive of tax and a mark-up of not more than 5% of the construction cost) is lower than, or within the range of, the price quoted by independent construction contractors to the Company previously, which is based upon namely the size of the technology parks, complexity of the projects, the construction periods and location;
- (iv) A mark-up of not more than 5% of the construction cost is slightly lower than those offered by the CMDCT Group to other third parties; and
- (v) The Company has made an assumption that the CMDCT Group would be selected as its construction contractor for a majority of its technology parks to be commenced during the year ending 31 December 2019, taken into consideration that (a) the terms of project management fees with regard to the EPC general contracting service offered by the CMDCT Group to the Group was either the same or slightly better than those offered by other independent third party contractors to the Group; and (b) the Group selected the CMDCT Group, in adherence to the contractor selection policy prescribed by the Group,

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as its contractor for all its technology parks which commenced constructions during the year ended 31 December 2018. Accordingly, the Company considers it commercially reasonable to attribute a large proportion of approximately 80% of its demand for EPC general contracting service to the CMDCT Group, subject to the selection or bidding process as set out in the section headed “Principal Terms of The Framework Agreements”.

Given that each of the abovementioned items has been supported and fairly and reasonably arrived at, we consider the estimated maximum value of the transactions under the EPC Service Arrangement for the year ending 31 December 2019 of RMB250 million, calculated by multiplying the aggregate estimated construction area of the technology parks in which construction activities will be completed by the year ending 31 December 2019 with the maximum contractual price of RMB2,600 per square metre, to be fair and reasonable.

### *Notes*

- 1: The 8 secured sites include technology parks in Hefei, Jiaozhou, Yuxi, Haikou, Huai’an, Qijiang, Jiangxia and Lin’an.
- 2: The 2 potential sites include technology parks in Jintang and Dongli.

### *5.2.2 Proposed Annual Cap for the Supply Arrangement under the Framework Agreement I*

When arriving at our view with regard to the Proposed Supply Arrangement Annual Cap of RMB300 million, we have performed the following work, such as (i) reviewed several supply contracts samples signed between the Group and independent third parties; (ii) discussed with the Management regarding the estimated demand of the 8 secured sites within the year ending 31 December 2019; and (iii) discussed with the Management regarding the expected demand for their prefabricated construction components and products as well as prefabricated construction capabilities for the 2 potential sites currently under negotiation or identified by the Group within the year ending 31 December 2019. In addition, we have considered the following factors in determining the Proposed Annual Cap for the Supply Arrangement:

- (i) According to the Management, we noted that the CMDCT Group has represented to the Management that it had continued to enter into a large number of construction contracts, which are all required to be constructed with prefabricated construction components and products. The amount of prefabricated construction components and products required for each project depends on factors such as the design, size and complexity of the project;
- (ii) The CMDCT Group has presented to the Group that 43 projects amounting to a total construction area of approximately 1,400,000 square metres have been secured by the CMDCT Group for the year ending 31 December 2019, and provided the Company with (i) the corresponding construction timetable of the relevant construction contracts on hand; (ii) the details of specifications of prefabricated construction components and products to be used; and (iii) the expected transaction volume of prefabricated construction components and

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products for each project. Based on the aforesaid, the Company has estimated demand of prefabricated construction components and products from the CMDCT Group will be approximately 109,000 cubic metres. However, based on past experience, the CMDCT Group indicated that potential discrepancy of  $\pm 10\%$  in the actual transaction volume and the estimated transaction volume may be found for each construction project. As such, the Company has calculated the expected maximum demand of prefabricated construction components and products from the CMDCT Group of approximately 120,000 cubic metres by including a buffer of 10%.

- (iii) Taking into account (a) the Group's orders on hand from third party customers; (b) the Group's expected production capacity in the year ending 31 December 2019 as mentioned in the paragraph headed "Latest business development and performance of the Group" above; (c) the CMDCT Group's continued demand for prefabricated construction components and products as mentioned above; and (d) the Group intends to allow sufficient amount of supply available for the demand from CMDCT Group so as to enhance its chances to be selected in any tendering process for the supply mandate from CMDCT Group, the Management decided to fix at an amount of not more than RMB300 million during the period under the Framework Agreement I;
- (iv) We understand from the Management that 10 of the technology parks may supply prefabricated construction components and products to the CMDCT Group in 2019. The expected maximum demand of prefabricated construction components and products of approximately 120,000 cubic metres from the CMDCT Group would account for approximately 12% to 16% of the expected total production capacity of the Group for the year ending 31 December 2019 (which is approximately 760,000 to 1,010,000 cubic metres as described in the table under the paragraph headed "Latest business development and performance of the Group");
- (v) We noted that the CMDCT Group will invite the Group to submit tender/quotation for the supply of prefabricated construction components and products to other property developers, contractors or local governments, with whom the CMDCT Group has entered or is about to enter into construction contracts with; and
- (vi) The maximum selling price of RMB3,000 per cubic metre (with a profit margin of not more than 10% included) is in line with the price quoted by the Group to independent third party customers, which is based on the demand of prefabricated construction components and products required for each project and the location of the prefabricated construction components and products being manufactured.

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We understand from the Management that, when determining the Proposed Annual Cap for the Supply Arrangement, the possible impacts arising from the property cooling measures and changes in PRC government policies in 2018 have been taken into consideration. Based on discussion with the Management and news media research conducted, we understand that the PRC government policies are supportive of the development of the Group's prefabricated construction unit business in the PRC. For instance, the 13th Five Year Plan of the PRC for 2016–2020 stated its support for environmental and economical building construction and gradual increase of the use of prefabricated construction units. Other favorable PRC government policies to the Group's prefabricated construction unit business, such as the directive issued by the Ministry of Housing and Urban-Rural Development of the PRC which requires (i) 15% or more of all newly-constructed buildings in the PRC; and (ii) 20% or more of all newly constructed buildings in certain focused regions to be constructed using prefabricated construction units, will continue to be implemented across the PRC which will help alleviate the negative impact caused by the property cooling off measures in the PRC. The property market in the PRC is expected to recover in 2019 as evidenced by (i) the significant increases in both total gross land area and total transaction value of successful land tenders by approximately 6% and 10%, respectively, for the top ten cities during the first four months of 2019 as compared to the same period in 2018, according to the statistics published by CREIS China Index Database (“CREIS 中指數據”) which is an independent property research database specialising in the PRC property market; and (ii) the period-on-period growth by 11.9% in total investment for real estate development to RMB3,422 billion and period-on-period growth by 8.8% in the floor space under construction by the real estate development enterprises to 7,226 million square meters during the first four months of 2019, according to the latest press release from the National Bureau of Statistics of China on 15 May 2019. Having considered the above, the Management believes, and we concur, that possible impacts arising from the property cooling measures and changes in PRC government policies would be less substantial in 2019.

Having discussed with the management and compared, on a sampling basis, the budgeted cost and actual cost report in relation to CMDC's construction projects undertaken during the years ended 31 December 2017 and 2018, we understand that the actual usage of prefabricated construction components and products in general deviated for a discrepancy of approximately up to  $\pm 10\%$  from the originally planned usage due to a variety of uncertainties at construction site and, as such, we consider the buffer of 10% included in the calculation of maximum demand to be reasonable. Accordingly, proposed Annual Cap for the Supply Arrangement for the year ending 31 December 2019 was calculated by multiplying the expected average selling price of RMB2,500 per cubic metre (with a profit margin of not more than 10% included) with the expected maximum demand of prefabricated construction components and products from the CMDCT Group of approximately 120,000 cubic metres. When arriving at our view with regard to the maximum demand of prefabricated construction components and products from the CMDCT Group of approximately 120,000 cubic metres, we have discussed with the Management of the Group, and reviewed (i) the detailed summary of construction contracts on hand of the CMDCT Group; (ii) the current production schedules of the Group's technology parks; and (iii) the historical transaction value for the Supply

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Arrangement and the utilisation rate of the proposed annual cap for the year ended 31 December 2018. Despite the low utilization rate of the Proposed Annual Cap for the Supply Arrangement in 2018 as a result of the property cooling measures imposed by the PRC government, taking into consideration the expected recovery of the property market in the PRC in 2019 as aforementioned and the robust construction pipeline of the CMDCT Group as supported by its construction contracts on hand, we are of the view that the maximum demand of prefabricated construction components and products from the CMDCT Group, as mentioned in (ii) of the factors determining the Proposed Annual Cap, has been properly derived.

As mentioned in (iii) of the factors determining the Proposed Annual Cap, the Directors believe that, in order to put the Group in a competitive position to be awarded with supply mandates by the CMDCT Group, it would be important that the Proposed Annual Cap for the Supply Arrangement under the Framework Agreement I is set at a proposed level so as not to be prevented from submitting tenders/quotations for supply mandate (in the event that any potential projects as set out in the table under the paragraph headed “Latest business development and performance of the Group” above were replaced by other new potential projects) because the annual transaction amounts have reached or likely to exceed an annual cap if it is set at a low level. Given that there is no commitment that the Group will be awarded with the supply mandate by the CMDCT Group at any time, we concur with the Directors that it is also commercially justifiable to set the Proposed Annual Cap for the Supply Arrangement under the Framework Agreement at RMB300 million to allow flexibility for the Group to operate, manage and grow its business.

Given that each of the abovementioned factors has been supported and reasonably arrived at, we consider the Proposed Annual Cap for the Supply Arrangement for the year ending 31 December 2019 of RMB300 million (with a buffer amount of approximately RMB27.5 million included) to be fair and reasonable.

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### 5.2.3 Estimated transaction value for the Park Design Service Arrangement under Framework Agreement II

When arriving at our view with regard to the estimated maximum value of the transactions under the Park Design Service Arrangement under Framework Agreement II of RMB6 million for the year ending 31 December 2019, since there is currently no contacts entered into between the Company and other independent construction contractors, we have (i) discussed with the Management regarding the rationale and reason for separating out the Park Design Service which was included in the EPC Service Arrangement in 2018; and (ii) discussed with the Management regarding the budget costs of Park Design Service for the 4 secured sites and 2 potential sites currently under negotiation or identified by the Group. We have also considered the following factors in determining the estimated maximum transaction value:

- (i) According to the Management, assuming CMDCD Group has been successfully selected after a bidding process, the aggregate estimated construction area of the 6 out of the 10 technology parks (*Note 1*) of approximately 236,500 square metres will be settled for their design during the year ending 31 December 2019 (please refer to the table in the section headed “Latest business development and performance of the Group” above);
- (ii) The construction plan and duration of the 6 technology parks (*Note 1*) during the year ending 31 December 2019;
- (iii) The maximum contractual price of RMB25 per square metre (inclusive of tax and a mark-up of not more than 5% of the design cost) is lower than, or within the range of, the price quoted by independent construction contractors to the Company previously, which is based upon namely the size of the technology parks, complexity of the projects, the construction periods and location; and
- (iv) A mark-up of not more than 5% of the design cost will not be higher than those offered by the CMDCD Group to other third parties.

Given that each of the abovementioned items has been supported and fairly and reasonably arrived at, we consider the estimated maximum value of the transactions under the Park Design Service Arrangement for the year ending 31 December 2019 of RMB6 million, calculated by multiplying the aggregate estimated construction area of the 6 technology parks (*Note 1*) during the year ending 31 December 2019 with the maximum contractual price of RMB25 per square metre, to be fair and reasonable.

*Note 1:* The 6 sites include technology parks in Hefei, Qijiang, Jintang, Jiangxia, Dongli and Lin'an.



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### *5.2.4 Estimated Annual Cap and transaction value for the PC Design Service Arrangement under the Framework Agreement II*

When arriving at our view with regard to the PC Design Service Arrangement Annual Cap of RMB9 million, since there is currently no contacts entered into between the Company and other independent third party construction contractors, we have discussed with the Management regarding the expected demand from CMDCT Group for prefabricated construction components in light of the expected number of project undertakings of CMDCT Group which requires prefabricated construction units within the year ending 31 December 2019. In addition, we have considered the following factors in determining the Proposed Annual Cap for the PC Design Service Arrangement:

- (i) According to the Management, 10 of the technology parks may supply prefabricated construction components and products of approximately 120,000 cubic metres to the CMDCT Group in 2019, which represents approximately 12% to 16% of the expected total production capacity of the Group for the year ending 31 December 2019 (which is approximately 760,000 to 1,010,000 cubic metres as described in the table under the paragraph headed “Latest business development and performance of the Group”);
- (ii) Taking into account (a) the Group’s orders on hand from third party customers; (b) the CMDCT Group’s continued demand for prefabricated construction components and products as mentioned above, the Management decided to fix at an amount of not more than RMB9 million during the period under the Framework Agreement II;
- (iii) The maximum contractual price of RMB70 per cubic metre (inclusive of tax and a mark-up of not more than 5% of the design cost) is lower than, or within the range of, the price quoted by independent construction contractors to the Company previously, which is based upon namely the size, complexity and sales volume of the prefabricated construction components and products.

Given that each of the abovementioned factors has been supported and reasonably arrived at, we consider the Proposed Annual Cap for the PC Design Service Arrangement for the year ending 31 December 2019 of RMB9 million, calculated by multiplying the maximum selling price of RMB70 per cubic metre (with a profit margin of not more than 5% included) with the expected demand of prefabricated construction components and products from the CMDCT Group and the third party customers of approximately 330,000 cubic metres with an estimation of approximately 40% which require such service, to be fair and reasonable.

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### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) entering into the Framework Agreements and the transactions contemplated thereunder is in the ordinary and usual course of business of the Company, and in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Framework Agreements are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned; and (iii) the Proposed Annual Caps of the Supply Arrangement and the PC Design Service Arrangement, as well as the estimated transaction value under the EPC Service Arrangement and Park Design Service Arrangement, are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the SGM to approve the Framework Agreements.

Yours faithfully,  
For and on behalf of  
**Fortune Financial Capital Limited**  
**Alfred Wu**  
*Managing Director*

*Mr. Alfred Wu (“Mr. Wu”) is a responsible officer of Fortune Financial Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. Mr. Wu has over 10 years of experience in corporate finance advisory in Hong Kong.*

**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.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at the Latest Practicable Date, none of the Directors and chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

The Over-lapping Director serves as a director of certain subsidiaries of CMIC, which is the Company's controlling shareholder holding approximately 63.87% of the issued share capital of the Company as at the Latest Practicable Date. Mr. Peng Xiongwen is a chief financial officer of a certain subsidiary of CMIC. Save as the above, none of the Directors is a director or employee of a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

**DIRECTORS' INTERESTS IN ASSETS**

As at the Latest Practicable Date, none of the Directors, directly or indirectly, had any interest in any assets which had since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**DIRECTORS' INTERESTS IN CONTRACTS**

As at Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested, directly or indirectly, and which was significant in relation to the business of the Group.

**DIRECTORS' INTEREST IN THE FRAMEWORK AGREEMENTS**

None of the Directors have any material interest in the Framework Agreements or the transactions contemplated thereunder for which they would be required to abstain from voting on the relevant board resolutions approving the terms of the Framework Agreements, the Proposed Supply Arrangement Annual Cap and transactions contemplated thereunder pursuant to the articles of association of the Company. However, for good corporate governance, the Over-lapping Director has abstained from voting on the relevant resolutions as he also serves as a director of certain shareholders and/or subsidiaries of CMIC.

**QUALIFICATION AND CONSENT OF EXPERT**

The following are the qualifications of the experts who have given opinion or advice contained in this Circular:

<b>Name</b>	<b>Qualification</b>
Fortune Financial Capital Limited	a corporation licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO

The expert 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 it appears.

As at the Latest Practicable Date, the expert was not interested in any shares in the Company or any member of the Group, nor did it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in the Company or any member of the Group.

As at the Latest Practicable Date, the expert had not had any interest, direct or indirect, in any assets which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with the Company or its subsidiaries which will not expire or be determinable by the Company or its subsidiaries within one year without payment of compensation (other than statutory compensation).

**NO 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 December 2018, being the date to which the latest published audited consolidated finance statements of the Company were made up and up to the Latest Practicable Date.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with business of the Company which interest would be required to be disclosed under Rule 8.10 of the Listing Rules.

**MISCELLANEOUS**

- (i) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.
- (ii) The head office and principal place of business of the Company in Hong Kong is located at Suites 1001–1004 on Level 10 One Pacific Place 88 Queensway Admiralty, Hong Kong.
- (iii) The company secretary of the Company is Mr. Tsang Ho Pong who is a member of The Hong Kong Institute of Certified Public Accountants.
- (iv) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Ltd., whose address is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (v) The registered office of the Independent Financial Adviser, Fortune Financial Capital Limited, is at 43/F, COSCO Tower, 183 Queen's Road Central, Sheung Wan, Hong Kong.
- (vi) The English text of this Circular prevails over the Chinese text.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. (except Saturdays, Sundays and gazetted public holidays in Hong Kong), at 10th Floor, Suite 1001–1004, One Pacific Place, 88 Queensway, Hong Kong from the date of this Circular up to and including the date of the SGM:

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the Framework Agreements;
- (iii) the Previous Framework Agreement;
- (iv) the letter from the Independent Board Committee, the text of which is set out on pages 25 to 26 of this Circular;
- (v) the letter from the Independent Financial Adviser, the text of which is set out on pages 27 to 56 of this Circular;
- (vi) the written consents referred to in the paragraph headed “Experts and Consent” in this Appendix; and
- (vii) a copy of this circular.

**NOTICE OF SPECIAL GENERAL MEETING**



**CHINA MINSHENG DIT GROUP LIMITED**

**中民築友智造科技集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 726)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of China Minsheng DIT Group Limited (the “**Company**”) will be held at 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Thursday, 4 July 2019 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution (with or without amendments) as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

Words and expressions that are not expressly defined in this notice shall bear the same meaning as those defined in the circular dated 14 June 2019 issued by the Company.

“**THAT** the entry into by the Company of the Framework Agreement I dated 3 April 2019 and the Framework Agreement II dated 3 April 2019 (copies of which have been produced to the meeting and initialed by the chairman of the meeting for the purposes of identification) and the transactions contemplated thereunder (including the Proposed Supply Arrangement Annual Cap) be and are hereby confirmed, approved and ratified.”

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

Hong Kong, 14 June 2019

*Notes:*

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, on a poll, subject to the provisions of the Bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned SGM thereof if you so wish. In the event that you attend the SGM after having returned the completed form of proxy, your form of proxy will be deemed to have been revoked.

## NOTICE OF SPECIAL GENERAL MEETING

- (3) In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, at the offices of the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Ltd., at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (4) In the case of joint registered holders of any shares of the Company, any one of such joint registered holders may vote at the SGM, either in person or by proxy, in respect of such shares as if he/she/it were solely entitled thereto; but if more than one of such joint registered holders are present at the SGM, either in person or by proxy, the vote of that one of them so present, either in person or by proxy, whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holder(s).

*As at the date of this notice, the Board comprises Mr. Yin Jun (Chairman) and Mr. Yang Hongwei as executive Directors; Mr. Peng Xiongwen as non-executive directors; Mr. Jiang Hongqing, Mr. Lee Chi Ming and Mr. Ma Lishan as independent non-executive directors.*