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河北建設集團股份有限公司

HEBEI CONSTRUCTION GROUP CORPORATION LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1727)

公告
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 2020年12月22日
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Reference is made to the Prospectus of the Company in relation to, among others, continuing connected transactions entered into between the Company and Baoding Tianli as well as the annual caps thereof.

As disclosed in the Prospectus, the Company entered into the Labor Subcontract Framework Agreement with Baoding Tianli, and set the annual caps in respect of the non-exempt continuing connected transactions under the Labor Subcontract Framework Agreement for 2017, 2018 and 2019. The framework agreement above will expire on 31 December 2019. As the Company will continue such continuing connected transactions after 31 December 2019, the Company is required to comply with the requirements for continuing connected transactions under Chapter 14A of the Listing Rules. Therefore, the Company entered into the New Labor Subcontract Framework Agreement with Baoding Tianli to renew the continuing connected transactions for years 2020 to 2022, and set the annual caps for such continuing connected transactions.

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As at the date of this announcement, Baoding Tianli is a wholly-owned subsidiary of Zhongming Zhiye, which is owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, respectively. As Zhongru Investment and Qianbao Investment are controlling shareholders of the Company, Baoding Tianli is a connected person of the Company by virtue of Rule 14A.07(4) of the Listing Rules. Pursuant to the Listing Rules, the transactions contemplated under the New Labor Subcontract Framework Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) of the New Labor Subcontract Framework Agreement entered into between the Company and Baoding Tianli and the transactions contemplated thereunder is higher than 5%, pursuant to the Listing Rules, the transactions contemplated under the New Labor Subcontract Framework Agreement are subject to the notification, announcement, independent financial advice and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Having considered the pricing policies, basis of determination for the proposed annual caps, reasons for and benefits of the continuing connected transactions, and internal control procedures of the Company, the Directors (including the independent non-executive Directors) are of the view that the New Labor Subcontract Framework Agreement is entered into on normal commercial terms in the ordinary and usual course of business of the Company, the terms and the proposed annual caps of the continuing connected transactions contemplated thereunder are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

EXTRAORDINARY GENERAL MEETING

The Company will hold the Extraordinary General Meeting for the Shareholders to consider and, if thought fit, approve, among others, the New Labor Subcontract Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder for 2020, 2021 and 2022.

Zhongru Investment and Qianbao Investment will abstain from voting on relevant resolutions at the Extraordinary General Meeting. To the best knowledge, information and belief of the Directors having made all reasonable inquiries, save for Zhongru Investment and Qianbao Investment, no other Shareholders will be required to abstain from voting on relevant resolutions at the Extraordinary General Meeting.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the New Labor Subcontract Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder. The Company has appointed Halcyon Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding such matters.

A circular containing, among others, (i) details of the New Labor Subcontract Framework Agreement and its proposed annual caps; (ii) the letter from the Independent Board Committee to the Independent Shareholders in relation to the New Labor Subcontract Framework Agreement and its proposed annual caps; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding such matters; and (iv) a notice of the Extraordinary General Meeting will be despatched to the Shareholders on or before 22 January 2020.

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Reference is made to the Prospectus in relation to, among others, the Labor Subcontract Framework Agreement entered into between the Company and Baoding Tianli on 23 November 2017. As disclosed in the Prospectus, pursuant to the Labor Subcontract Framework Agreement, Baoding Tianli shall provide labor subcontract services to the Group in its ordinary course of business, including but not limited to contracting for building construction projects and infrastructure construction projects, for which Baoding Tianli will charge the Group subcontract fees (including subcontract service fees, labor wages and social insurance expenses, taxation, auxiliary materials and tools costs, and other fees).

As the Labor Subcontract Framework Agreement will expire on 31 December 2019, the Company has entered into the New Labor Subcontract Framework Agreement with Baoding Tianli on 31 December 2019. Subject to the approval on the Extraordinary General Meeting, the agreement is valid for a term of three years commencing from 1 January 2020 and expiring on 31 December 2022.

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Dat : 31 December 2019

a t : Baoding Tianli (as sub-contractor); and
the Company (as contractor).

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Baoding Tianli shall provide labor subcontract services to the Group in its ordinary course of business, including but not limited to contracting for building construction projects and infrastructure construction projects, for which Baoding Tianli will charge the Group subcontract fees (including subcontract service fees, labor wages and social insurance expenses, taxation, auxiliary materials and tools costs, and other fees). The New Labor Subcontract Framework Agreement is valid for a term of three years after signed and sealed by the signing parties, and considered and approved by the board of directors and independent shareholders of the Company. The New Labor Subcontract Framework Agreement can be renewed for another three years upon its expiry as agreed by relevant parties to the agreement. Relevant subsidiaries or associated companies of both parties will enter into separate underlying agreements which will set out the specific terms and conditions according to the principles provided in the New Labor Subcontract Framework Agreement.

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In accordance with the New Labor Subcontract Framework Agreement, the total subcontract fee to be paid by the Group to Baoding Tianli will be determined based on the following pricing policy: when the Group subcontracts labor supply for the construction projects, public bidding procedures will be applied. Prior to the bidding procedures, the Group will publish announcements on its bidding invitation on public websites. There must be at least three independent third party bidders attending the bidding procedures, otherwise the bidding will be canceled. The review panel for any bidding consists of experts selected by us as well as the project manager, and the comparable quoted bidding prices (including subcontract service fees, labor wages and social insurance expenses, taxation, auxiliary materials and tools costs, and other fees) is an important, but not the only, factor to be considered. The review panel will also take into consideration factors including, but not limited to, the bidder's sufficient licenses and qualifications, business scale and capacities and its historical results, as well as make reference to prevailing market terms and prices. The bidder with the highest score comprehensively determined by the review panel wins, and the bidding price offered by such bidder will be implemented. Therefore, only in the event that Baoding Tianli wins the bidding with the highest score determined by the review panel, we will enter into business agreements with Baoding Tianli under the New Labor Subcontract Framework Agreement.

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The total amounts of transactions between the Group and Baoding Tianli for the two years ended 2017 and 2018 and the six months ended 30 June 2019 were RMB1,918 million, RMB3,871 million and RMB1,977 million, respectively. The growth in the above total subcontract fee mainly results from (i) the rapid business expansion of the Group; (ii) the enhanced comprehensive business capabilities of Baoding Tianli; and (iii) the increase in labor wages.

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For the three years ending 31 December 2020, 2021 and 2022, the maximum annual amounts of total service fees shall not exceed the caps set out below:

(Unit: RMB million)

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	2020	2021	2022
Total fees	4,000	4,000	4,000

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The proposed annual caps under the New Labor Subcontract Framework Agreement for the three years ending 31 December 2020, 2021 and 2022 are calculated in consideration of the following factors:

(1) Estimated costs of sales of the Group

We estimate costs of sales by taking into account: (i) our historical performance in our principal business of construction contracting; (ii) our business development plan and

(5) *Background*

Baoding Tianli has expertise in labor subcontract services and has established a good reputation for its quality services in the labor industry. The provision of labor subcontract services by Baoding Tianli to the Group started before the date of this announcement, when it was a subsidiary of the Company. Baoding Tianli has become familiar with our business needs and operational requirements through its long-term cooperation with us and thus can provide us with a sufficient number of laborers who have the requisite expertise and experience for our construction business, in a timely manner and in accordance with applicable laws and regulations. Accordingly, although the Company sold Baoding Tianli to Zhongming Zhiye during the reorganization so as to focus on our principal businesses, the Directors of the Company (including the independent non-executive Directors) are of the view that it is in the interests of the Shareholders as a whole to enter into the New Labor Subcontract Framework Agreement with Baoding Tianli.

(6) *Listing Rules*

As at the date of this announcement, Baoding Tianli is a wholly-owned subsidiary of Zhongming Zhiye, which is owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, respectively. As Zhongru Investment and Qianbao Investment are controlling shareholders of the Company, Baoding Tianli is our connected person by virtue of Rule 14A.07(4) of the Listing Rules. Pursuant to the Listing Rules, the transactions contemplated under the New Labor Subcontract Framework Agreement entered into between the Company and Baoding Tianli constitute continuing connected transactions of the Company under the Listing Rules.

As the relevant highest applicable percentage ratio (as defined in the Listing Rules) of the transactions contemplated under the New Labor Subcontract Framework Agreement entered into between the Company and Baoding Tianli calculated in accordance with the Listing Rules is higher than 5%, such transactions are subject to the reporting, announcement, independent financial advice and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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In order to ensure that the terms of the New Labor Subcontract Framework Agreement are fair and reasonable, or no less favorable than terms available to or from Independent Third Parties, and are carried out under normal commercial terms, the Company has adopted the following internal control procedures:

- The Company has adopted and implemented a set of management system on connected transactions. Under such system, the Audit Committee under the Board is responsible for review on compliance with relevant laws, regulations, the Company's policies and the Listing Rules in respect of the continuing connected transactions. In addition, the Audit Committee under the Board, the office of the Board and various internal departments of the Company (including but not limited to the market operation department, the production security department, the finance management department, the financial securities department and legal department) are jointly responsible for evaluating the terms and fees (including but not limited to identifying transactions with independent third parties to determine the market prices) under such framework agreement for the continuing connected transactions, in particular, the pricing policies under such transactions; the market operation department and the production security department are responsible for the approval of the annual caps and their fairness under such transactions;
- The Audit Committee of the Board, the office of the Board and various internal departments of the Company (including but not limited to the finance department and the legal department) will also regularly review the implementation of such framework agreement for the continuing connected transaction and the progress of the transaction semi-annually and quarterly, respectively. In addition, the Board will regularly review the pricing policy of such framework agreement for the continuing connected transaction on an annual basis;
- Our independent non-executive Directors and auditors will conduct annual reviews of the continuing connected transactions under such framework agreement and provide annual confirmation in accordance with the Listing Rules to ensure that, the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the pricing policy; and

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Having considered the pricing policies, basis of determination for the proposed annual caps, reasons for and benefits of the continuing connected transactions, and internal control procedures of the Company, the Directors (including the independent non-executive Directors) are of the view that the New Labor Subcontract Framework Agreement is entered into on normal commercial terms in the ordinary and usual course of business of the Company, the terms and the proposed annual caps of the continuing connected transactions contemplated thereunder are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

The Board has resolved to approve the above matters. As Mr. LI Baozhong, Mr. SHANG Jinfeng, Mr. LIU Yongjian, Mr. ZHAO Wensheng, Mr. LI Baoyuan and Mr. CAO Qingshe are interested in or serve management positions of Zhongming Zhiye and/or its associates, they are considered to be connected with the New Labor Subcontract Framework Agreement and the transactions contemplated thereunder, and they have abstained from voting on the Board resolutions for approving the above framework agreement and the proposed annual caps. Save as disclosed above, there are no other Directors who have any material interest in the New Labor Subcontract Framework Agreement, and no other Directors are required to abstain from voting on the Board resolutions for considering and approving the New Labor Subcontract Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder.

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The Company has established the Independent Board Committee (comprising all the independent non-executive Directors, namely Mr. XIAO Xuwen, Ms. SHEN Lifeng, Ms. CHEN Xin and Mr. CHAN Ngai Sang Kenny) to advise the Independent Shareholders in respect of the New Labor Subcontract Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder. The Company has appointed Halcyon Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding such matters.

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(1) Information on the Company

The Company is a joint stock company incorporated in the PRC on 7 April 2017 with limited liability and is engaged in the provision of integrated solutions primarily for the construction contracting of buildings and infrastructure projects.

(2) Information on Baoding Tianli

Baoding Tianli is a company incorporated in the PRC on 27 November 2001 with limited liability, and its business scope mainly includes subcontracting of masonry, plasterwork, painting, reinforcing bar, concrete work, scaffolding, molding, water, heating and electric system installation, welding and sheet metal work, and dispatch of labor to overseas areas (excluding Hong Kong, Macau and Taiwan).

EXTRAORDINARY GENERAL MEETING

The Company will hold the Extraordinary General Meeting for the Shareholders to consider and, if thought fit, approve, among others, the New Labor Subcontract Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder for 2020, 2021 and 2022.

Zhongru Investment and Qianbao Investment will abstain from voting on relevant resolutions at the Extraordinary General Meeting. To the best knowledge, information and belief of the Directors having made all reasonable inquiries, save for Zhongru Investment and Qianbao Investment, no other Shareholders will be required to abstain from voting on relevant resolutions at the Extraordinary General Meeting.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the New Labor Subcontract Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder. The Company has appointed Halcyon Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding such matters.

A circular containing, among others, (i) details of the New Labor Subcontract Framework Agreement and its proposed annual caps; (ii) the letter from the Independent Board Committee to the Independent Shareholders in relation to the New Labor Subcontract Framework Agreement and its proposed annual caps; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding such matters; and (iv) a notice of the Extraordinary General Meeting will be despatched to the Shareholders on or before 22 January 2020.

DEFINITION

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Baoding Tianli”	Baoding Tianli Labor Service Co., Ltd. (保定天力勞務有限公司), a company incorporated in the PRC with limited liability on 27 November 2001
“Board”	the board of Directors of the Company
“Company”	Hebei Construction Group Corporation Limited
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules

“continuing connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Shares”	ordinary Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi
“Extraordinary General Meeting”	the 2020 first extraordinary general meeting of the Company to be convened and held at 9:00 a.m. on Monday, 17 February 2020 at Meeting Room, 3/F, No. 329, Wusi West Road, Jingxiu District, Baoding City, Hebei Province, the PRC
“Group” or “we” or “us”	the Company and its subsidiaries
“H Shares”	overseas listed foreign Shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and listed on the Stock Exchange
“HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors independent from related matters to advise Independent Shareholders in respect of the New Labor Subcontract Framework Agreement and its proposed annual caps
“Independent Financial Adviser”	Halcyon Capital Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser of the Company appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the New Labor Subcontract Framework Agreement and its proposed annual caps
“Independent Shareholders”	Shareholders of the Company other than Zhongru Investment and Qianbao Investment

“Independent Third Parties”	to the best knowledge of the Directors after having made all reasonable enquiries, persons not connected to the Group and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Labor Subcontract Framework Agreement”	the new labor subcontract framework agreement entered into between the Company and Baoding Tianli on 31 December 2019
“PRC”	the People’s Republic of China, for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus of the Company published on the website of the Stock Exchange on 5 December 2017
“Qianbao Investment”	Qianbao Investment Co., Ltd. (乾寶投資有限責任公司) (previously known as Baoyuan Investment Co., Ltd. (寶元投資有限責任公司)), a company incorporated in the PRC on 19 April 2010 with limited liability. As at the date of this announcement, Qianbao Investment directly and indirectly (through Zhongru Investment) holds approximately 73.8% equity interests of the Company in aggregate and is a controlling shareholder of the Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	Domestic Shares and H Shares
“Shareholders(s)”	holder(s) of the Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules

“Zhongming Zhiye”

Zhongming Zhiye Co., Ltd. (中明置業有限公司), a company incorporated in the PRC on 1 December 2016 with limited liability. As at the date of this announcement, Zhongming Zhiye is owned as to 92.5% and 7.5% by Zhongru Investment and Qianbao Investment, the controlling shareholders of the Company, respectively

“Zhongru Investment”

Zhongru Investment Co., Ltd. (中儒投資股份有限公司) (previously known as Baoding Zhongyang Investment Co., Ltd. (保定中陽投資股份有限公司)), a joint stock company incorporated in the PRC on 2 August 2010. As at the date of this announcement, Zhongru Investment directly holds approximately 68.3% equity interests of the Company and is a controlling shareholder of the Company

“%”

per cent

By order of the Board
C t t C at t
L Ba z g
Chairman and Executive Director

Hebei, the PRC
31 December 2019

As at the date of this announcement, the executive Directors are Mr. LI Baozhong, Mr. SHANG Jinfeng, Mr. LIU Yongjian and Mr. ZHAO Wensheng; the non-executive Directors are Mr. LI Baoyuan and Mr. CAO Qingshe; and the independent non-executive Directors are Mr. XIAO Xuwen, Ms. SHEN Lifeng, Ms. CHEN Xin and Mr. CHAN Ngai Sang Kenny.