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**CNBM**

**China National Building Material Company Limited\***

**中國建材股份有限公司**

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

(Stock Code: 3323)

## **CONNECTED TRANSACTION ACQUISITION OF EQUITY INTEREST IN SOUTHWEST CEMENT**

### **THE AGREEMENT**

On 20 June 2018, the Company, Zhonghai Trust and Southwest Cement entered into the Agreement, pursuant to which the Company has agreed to purchase, and Zhonghai Trust has agreed to sell, the 18.70% equity interest in Southwest Cement, which is directly owned as to 70% by the Company as at the date of this announcement.

### **LISTING RULES IMPLICATIONS**

As Zhonghai Trust is a substantial shareholder of Southwest Cement holding 18.70% equity interest in Southwest Cement, which is a subsidiary of the Company, Zhonghai Trust is a connected person at the subsidiary level of the Company under the Listing Rules. Accordingly, the entering into of the Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company involving a connected person at the subsidiary level.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 1% but all such applicable percentage ratios are less than 5%, the Acquisition is subject to the reporting and announcement requirements, but is exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **PRINCIPAL TERMS OF THE AGREEMENT**

### **Date**

20 June 2018

### **Parties**

- (1) the Company, as transferee;
- (2) Zhonghai Trust, as transferor; and
- (3) Southwest Cement, as the target company.

### **Nature of transaction**

The Company has agreed to purchase, and Zhonghai Trust has agreed to sell, the 18.70% equity interest in Southwest Cement, which is a 70% directly-owned subsidiary of the Company as at the date of this announcement.

Upon completion of the Acquisition, the Company's equity interest in Southwest Cement will increase from 70% (as at the date of this announcement) to 88.70%.

### **Consideration**

The aggregate consideration in respect of the sale and purchase of the 18.70% equity interest in Southwest Cement is RMB1,917,746,479.45. The consideration was determined after arm's length negotiations and taking into account the appraised value of the equity interest of Southwest Cement based on the Valuation Report.

The Company will be entitled to 88.70% of the accumulated profits/losses of Southwest Cement as at the completion date of the relevant industrial and commercial registration of the changes pursuant to the Acquisition.

The consideration is payable in cash before 15:00 on 21 June 2018 and within 10 business days from the date of satisfaction (or waiver, if any) of the Conditions Precedent.

## Conditions Precedent

The conditions precedent under the Agreement are:

- (i) the Agreement becoming effective upon signing by all parties;
- (ii) the parties not being in breach of the terms as stipulated in the Agreement; and
- (iii) there having been no material adverse change to the business, assets, operational results, financial status and prospects of Southwest Cement.

## SHAREHOLDING STRUCTURE OF SOUTHWEST CEMENT

The paid-in capital contribution as at the date of this announcement, and the shareholding structure of Southwest Cement immediately before and after the completion of the Acquisition are set out below:

Shareholders	Paid-in capital as at the date of this announcement (RMB million)	Shareholding structure of Southwest Cement	
		Immediately before the completion of the Acquisition	Immediately after the completion of the Acquisition
The Company	7,000	70.00%	88.70%
Zhonghai Trust	1,870	18.70%	–
Shanghai Zhentong	630	6.30%	6.30%
Beijing Huachen	500	5.00%	5.00%
Total	<u>10,000</u>	<u>100.00%</u>	<u>100.00%</u>

## INFORMATION ON SOUTHWEST CEMENT

Southwest Cement is a company incorporated under the laws of the PRC with limited liability and a 70% owned subsidiary of the Company as at the date of this announcement. It is principally engaged in the production and sales of clinker and commercial concrete and other related cement products.

According to the audited consolidated accounts of Southwest Cement and its subsidiaries (together, the “**Southwest Cement Group**”) prepared under the PRC generally accepted accounting principles, (i) the audited net profits (before tax) of the Southwest Cement Group for the years ended 31 December 2016 and 2017 were RMB708,323,981.73 and RMB1,205,589,649.65 respectively; and (ii) the audited net profit (after tax) of the Southwest Cement Group for the years ended 31 December 2016 and 2017 were RMB504,426,563.33 and RMB862,304,450.85 respectively.

According to the Valuation Report, the appraised value (based on the income approach) of the entire equity interest of Southwest Cement as at 31 December 2017 was approximately RMB12,500,000,000. The book value of the equity interest attributable to owners of Southwest Cement on a consolidated basis was RMB12,490,886,648.13.

## **VALUATION OF THE EQUITY INTEREST**

As the appraisal of the value of shareholders’ equity of Southwest Cement as stated in the Valuation Report adopts the income approach based on the discounted future cash flows, such valuation constitutes a profit forecast under Rules 14A.06(32) and 14.61 of the Listing Rules. Baker Tilly Hong Kong Limited, the reporting accountant of the Company, has reported and confirmed that they have reviewed the accounting policies and calculations for the forecasts used in the Valuation Report. So far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. Please see report from the Reporting Accountant in Appendix I. The Board confirmed that the profit forecast has been made after due and careful enquiry by the Board. Please see Letter from the Board in Appendix II.

### **Principal assumptions adopted in the Valuation Report**

1. Trading assumptions: This assumes the subject of valuation is already in the course of the transaction, and the valuation conducted by the appraiser is based on a simulated market based on the terms of the transaction. The result of the valuation is an estimate of the price at which the subject of valuation is most likely to be transacted;
2. Open market assumptions: This assumes that the subject of valuation and the relevant assets involved are traded in the open market, where buyers and sellers are dealing with one another at arm’s length, and have the opportunities and time to obtain sufficient market information, and that all transaction behaviour of the buyers and the sellers are voluntary, rational and not compulsory;
3. Enterprise going concern assumptions: Upon realisation of the economic behaviours of valuation purposes, it is assumed that the subject of valuation and its assets involved will be subject to continuous usage in accordance with their purposes and uses as of its valuation base date;

4. The appraisal report assumes that the legal documents, technical information and operational information and other information provided by the consignor are authentic, and the appraiser does not bear any legal liabilities arising from the assets ownership of the subject of valuation;
5. Unless otherwise stated, the appraisal report assumes that the results of fieldwork of tangible assets identified through their visible physical appearance are roughly consistent with their actual economic usage life. Specific tech check, including data, situation, structure and attachments were not performed.

### **Experts' qualification, consents and opinions**

The qualifications of the experts who have given their statements in this announcement are as follows:

<b>Name</b>	<b>Qualification</b>
Baker Tilly Hong Kong Limited	Certified Public Accountants
銀信資產評估有限公司 (Yinxin Assets Appraisal Co., Ltd.*)	Qualified Valuer in the PRC

As at the date of this announcement, each of the above experts does not have:

- a) any direct or indirect interest in any assets which have been 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 since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up; and
- b) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Baker Tilly Hong Kong Limited has given and has not withdrawn its consent to the issue of this announcement with the inclusion of its letter and reference to its name in the form and context in which it appears.

### **INFORMATION ON THE PARTIES**

The Company is a leading building materials company in the PRC with principal operations in the cement, lightweight building materials, glass fibre and composite materials, and engineering services business segments.

Zhonghai Trust is a trust company established in the PRC, which is principally engaged in the trust business approved by the former China Banking Regulatory Commission and its proprietary businesses. The trust business mainly includes trust loans, credit asset securitisation, structured securities investment, private equity funds, equity trusts and financial consultancy. Its proprietary businesses include financial equity investment, securities investment, investment in a particular kind of financial product, interbank placement, self-owned investment in fixed assets and loans.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

Due to the advancement of supply-side structural reform, the market in the southwest region continued to improve, and Southwest Cement is expected to have favourable future benefits. It is expected that the Acquisition can further strengthen the Company's core, quality asset management, and obtain a better return on investment.

The Board (including the independent non-executive Directors) is of the view that the terms of the Acquisition are fair and reasonable, and the Acquisition is conducted in the ordinary and usual course of business of the Group on normal commercial terms or better, and are in the interests of the Company and its shareholders as a whole. None of the Directors have a material interest in the Acquisition.

## **LISTING RULES IMPLICATIONS**

As Zhonghai Trust is a substantial shareholder of Southwest Cement holding 18.70% equity interest in Southwest Cement, which is a subsidiary of the Company, Zhonghai Trust is a connected person at the subsidiary level of the Company under the Listing Rules. Accordingly, the entering into of the Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company involving a connected person at the subsidiary level.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 1% but all such applicable percentage ratios are less than 5%, the Acquisition is subject to the reporting and announcement requirements, but is exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **DEFINITIONS**

“Acquisition”	the acquisition by the Company of 18.70% equity interest in Southwest Cement under the Agreement
“Agreement”	the equity transfer agreement dated 20 June 2018 entered into between the Company as transferee, Zhonghai Trust as transferor and Southwest Cement as the target company, in relation to the sale and purchase of the 18.70% equity interest in Southwest Cement

“Beijing Huachen”	北京華辰普金資產管理中心(有限合夥)(Beijing Huachen Pujin Asset Management Center (Limited Liability Partnership)*)
“Board”	the board of Directors
“Company”	中國建材股份有限公司(China National Building Material Company Limited*), a joint stock limited company incorporated under the laws of the PRC, the H Shares of which are listed on the Stock Exchange
“Conditions Precedent”	the conditions precedent to the completion of the Agreement, as set out in the section headed “Conditions Precedent” in this announcement
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, excluding, for the purpose of this announcement only, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Zhentong”	上海圳通股權投資管理有限公司 (Shanghai Zhentong Equity Investment Management Company Limited*)
“Southwest Cement”	西南水泥有限公司(Southwest Cement Company Limited*), a company incorporated under the laws of the PRC with limited liability and a 70% owned subsidiary of the Company prior to the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

- “Valuation Report” the valuation report in respect of the shareholders’ equity of Southwest Cement prepared by 銀信資產評估有限公司(Yinxin Assets Appraisal Co., Ltd.\*) for the purpose of the acquisition by the Company of the equity interests in Southwest Cement
- “Zhonghai Trust” 中海信託股份有限公司 (Zhonghai Trust Co., Ltd\*), a trust company established in the PRC

By order of the Board  
**China National Building Material Company Limited\***  
**Yu Kaijun**  
*Secretary of the Board*

Beijing, the PRC  
20 June 2018

*As at the date of this announcement, the board of directors of the Company comprises Mr. Cao Jianglin, Mr. Peng Jianxin, Mr. Peng Shou and Mr. Cui Xingtai as executive directors, Ms. Xu Weibing, Mr. Chang Zhangli, Mr. Tao Zheng, Mr. Chen Yongxin, Mr. Shen Yungang and Ms. Fan Xiaoyan as non-executive directors and Mr. Sun Yanjun, Mr. Liu Jianwen, Mr. Zhou Fangsheng, Mr. Qian Fengsheng and Ms. Xia Xue as independent non-executive directors.*

\* *For identification purposes only*



## APPENDIX I REPORT FROM THE REPORTING ACCOUNTANT

The following is the text of a report received from the reporting accountant, Baker Tilly Hong Kong Limited, Certified Public Accountants, for inclusion in this announcement.



### INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF SOUTHWEST CEMENT COMPANY LIMITED\*

**To the Board of Directors of China National Building Material Company Limited (the “CNBM”)**

We refer to the discounted future cash flows on which the business valuation (the “**Valuation**”) dated 25 April 2018 prepared by 銀信資產評估有限公司 (Yinxin Assets Appraisal Co., Ltd.\*) in respect of the appraisal of the fair value of the entire equity interest of 西南水泥有限公司 (Southwest Cement Company Limited\*, or “**Southwest Cement**”) as at 31 December 2017 is based.

The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under Rules 14A.06 and 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

#### **Directors’ Responsibilities**

The directors of CNBM (the “**Directors**”) are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

\* *For identification purpose only*

## **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institutes of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## **Reporting Accountants’ Responsibilities**

Our responsibility is to report, as required by Rules 14A.68(7) and 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

## **Basis of Opinion**

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedure on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

## **Opinion**

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

## **Other Matters**

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of Southwest Cement or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under Rules 14A.68(7) and 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,

**Baker Tilly Hong Kong Limited**

*Certified Public Accountants*

Hong Kong

20 June 2018

**Gao Yajun**

Practising Certificate Number P06391

## APPENDIX II LETTER FROM THE BOARD

20 June 2018

The Listing Division  
The Stock Exchange of Hong Kong Limited  
12th Floor, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

Dear Sirs,

### CONNECTED TRANSACTION – ACQUISITION OF EQUITY INTERESTS IN SOUTHWEST CEMENT

Reference is made to the announcement of 中國建材股份有限公司 (China National Building Material Company Limited\*) (the “**Company**”) to be dated 20 June 2018, which will contain a reference to the Valuation (as hereinafter defined).

We refer to the valuation report dated 25 April 2018 prepared by 銀信資產評估有限公司 (Yinxin Assets Appraisal Co., Ltd.\*) (the “**Independent Valuer**”) in respect of the shareholders’ equity of 西南水泥有限公司 (Southwest Cement Company Limited\*) (“**Southwest Cement**”) for the purpose of the acquisition by the Company of the equity interests in Southwest Cement (the “**Valuation**”).

As the Valuation in respect of Southwest Cement adopts the income approach, the Valuation constitutes a profit forecast under Rules 14A.06(32) and 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and accordingly, Rules 14A.68(7) and 14.62 of the Listing Rules are applicable.

We have discussed with the Independent Valuer about different aspects including the bases and assumptions upon which the Valuation has been prepared, and reviewed the Valuation for which the Independent Valuer is responsible. We have also considered the report from our reporting accountant, Baker Tilly Hong Kong Limited, regarding the accounting policies and calculations for the Valuation.

Pursuant to the requirements of Rules 14A.68(7) and 14.62(3) of the Listing Rules, we are of the opinion that the Valuation prepared by the Independent Valuer has been made after due and careful enquiry.

Yours faithfully,  
By order of the Board  
**China National Building Material Company Limited\***  
**Cao Jianglin**  
*Chairman*

Beijing, the PRC

\* For identification purposes only