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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 of its members)*

(Stock Code: 3323)

## **CONNECTED TRANSACTION ACQUISITION OF BEACON COATINGS**

### **EQUITY TRANSFER AGREEMENT IN RELATION TO THE ACQUISITION**

On 28 April 2023, the Parent entered into the Equity Transfer Agreement with BNBM Coating (a wholly owned subsidiary of BNBM, which is in turn a non-wholly owned subsidiary of the Company), in relation to a proposed Acquisition of the 51% equity interests in Beacon Coatings by BNBM Coating from the Parent, in consideration for cash.

### **IMPLICATIONS UNDER THE LISTING RULES**

As the Parent has direct and indirect equity interests of approximately 44.92% in aggregate in the Company, it is the substantial shareholder of the Company and thus constitutes a connected person of the Company. Accordingly, the Acquisition of the 51% equity interests in Beacon Coatings by BNBM Coating from the Parent constitutes a connected transaction of the Company.

As one or more applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Acquisition are higher than 0.1% but all applicable ratios are less than 5%, according to Rule 14A.76 of the Listing Rules, the Acquisition is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under the Listing Rules.

## **PRINCIPAL TERMS OF THE EQUITY TRANSFER AGREEMENT**

### **Date**

28 April 2023

### **Parties**

- (1) BNBM Coating, as purchaser; and
- (2) Parent, as seller.

### **Target Equity Interests**

The Target Equity Interests are 51% of the equity interests in Beacon Coatings held by the Parent.

### **Nature of transaction**

BNBM Coating will purchase 51% of the equity interests in Beacon Coatings from the Parent, in consideration for cash. After the Acquisition, Beacon Coatings will become a wholly owned subsidiary of BNBM Coating, and therefore become an indirect subsidiary of the Company.

From the day following the Handover Reference Day, BNBM Coating shall be entitled to the shareholders' rights, retained earnings and shareholders' obligations attached to the Target Equity Interests.

### **Amount and basis of the Consideration**

The Consideration of the Target Equity Interests is RMB 129.9277 million, which was determined based on the valuation amount of the Target Equity Interests in the Valuation Report issued by the Independent Valuer, and the Consideration will be paid in cash.

### ***Payment of the Consideration***

The cash Consideration payable by BNBM Coating to the Parent will be settled as follows:

- (1) 50% of the cash Consideration will be paid within 10 business days from the date of the Equity Transfer Agreement becoming effective;
- (2) the remaining cash Consideration will be paid within 10 business days from the completion of transfer of the Target Equity Interests and the completion of the Change of Business Registration regarding the transfer of the Target Equity Interests to BNBM Coating.

## **Treatment of creditor's rights and debts, profit and loss attribution**

After the completion of the transfer of the Target Equity Interests, the creditor's rights and debts of Beacon Coatings will remain in Beacon Coatings, and Beacon Coatings, following the transfer of the Target Equity Interests, will continue to enjoy or bear such creditor's rights and debts.

The relevant retained earnings of the Target Equity Interests of Beacon Coatings as of 30 September 2022 will be enjoyed by the shareholder subsequent to the Acquisition and the transfer of equity interests (i.e. BNBM Coating).

The profits and losses realised by Beacon Coatings from 30 September 2022 to the Handover Reference Day will be enjoyed or borne by the shareholder subsequent to the Acquisition and the transfer of equity interests (i.e. BNBM Coating).

## **Employee settlement arrangements**

The Acquisition and the transfer of the Target Equity Interests will not involve any resettlement of the personnel of Beacon Coatings and the relevant personnel and labour relations of Beacon Coatings will not undergo changes, and the labour contracts signed by existing personnel will continue to be executed in accordance with the laws and regulations.

## **Arrangements relating to tax payments**

All other tax payment obligations (if any) arising from the transfer of Target Equity Interests under the Equity Transfer Agreement will be borne by the Parent and BNBM Coating respectively in accordance with the relevant laws, regulations and policies in the PRC.

## **PROFIT FORECAST**

Since the Consideration in respect of 51% of the Target Equity Interests of Beacon Coatings is based on the Valuation Report adopting the value of the discounted cash flow method which is a type of income approach, the amount of Consideration constitutes a profit forecast under Rules 14A.06(32) and 14.61 of the Listing Rules. Therefore, Rules 14A.68(7) and 14.62 of the Listing Rules are applicable.

Moore Stephens CPA Limited, the reporting accountant of the Company, has reported on the calculations for the forecast used in the Valuation Report, which do not involve the adoption of accounting policies. So far as the calculations are concerned, the income approach has been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Board as set out in the Valuation Report. Please see the Report from the Reporting Accountant in Appendix I.

The Board has confirmed that the profit forecast has been made after due and careful enquiry by the Board. Please see the Letter from the Board in Appendix II.

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

The principal assumptions used in the Valuation Report are set out below:

### **(I) *Basic assumptions***

The basic assumptions in the Valuation Report:

#### *1. Transaction assumption*

The transaction assumption assumes that all assets to be appraised are already in the process of transaction, which valuation conducted by the Independent Valuer is based on a comparative market in accordance with the conditions of transaction of the assets to be appraised.

#### *2. Open-market assumption*

The open-market assumption assumes the conditions of the market which the assets are intended to enter into and the impact which the assets will be subject to under such market conditions. The open-market refers to fully developed and perfect market conditions, and refers to a competitive market with voluntary buyers and sellers. In such market, buyers and sellers have equal status and have the opportunity and time to obtain sufficient market information. Both parties conduct transactions under voluntary, rational, non-mandatory or unrestricted conditions.

#### *3. Continuous use of assets assumption*

The continuous use of assets assumption assumes the conditions of the market which the assets are intended to enter into and the status of such assets under such market conditions. First, the assets to be appraised are assumed to be in a state of use and it is assumed that the assets in such state of use will continue to be used. Under the conditions of the continuous use of assets assumption, it does not consider the conversion of the usage of assets or the optimal utilisation conditions, and the scope of use of the evaluation results is limited.

#### *4. Continuous operation assumption*

The continuous operation assumption assumes the entirety of the business assets as the target of appraisal. As the operating entity, the enterprise continues to operate in accordance with its business objectives in the external environment they are in. Business operators are responsible and capable of undertaking the responsibilities; the enterprise operates legally and is able to generate requisite profits to maintain its ability to continue operating.

## ***(II) Assumptions of the income approach valuation***

The assumptions of the income approach valuation in the Valuation Report:

1. It is assumed that there are no material changes to the current relevant national laws, regulations, policies and the macroeconomic situation of the country; there are no material changes in the political, economic and social environment of the regions where the parties to the Acquisition are located; there are no material adverse effects caused by other unforeseeable or force majeure factors.
2. It is assumed that the enterprise continues to operate based on the actual state of the assets on the Valuation Reference Date.
3. It is assumed that the operator of the appraised unit is responsible and that the management personnel of the appraised unit has the ability to undertake such office.
4. Except as otherwise specified, it is assumed that the appraised unit fully complies with relevant laws and regulations.
5. It is assumed that the accounting policies to be adopted by the appraised unit in future are basically consistent with the accounting policies adopted when preparing the report in material aspects.
6. It is assumed that, on the basis of existing management methods and management standards of the appraised unit, the scope and mode of operation are consistent with the current direction.
7. It is assumed that there are no material changes in respect of interest rates, exchange rates, tax basis, tax rates and policy-based fees etc..
8. It is assumed that there are no other force majeure factors or unforeseeable factors which cause material adverse changes towards the appraised unit.
9. It is assumed that the cash flow is generated in the middle of the year in the process of the income approach being adopted for the valuation.
10. It is assumed that the appraised unit will continue to obtain the qualification of high-tech enterprise in future years, and that the 15% income tax assessment will continue to be executed.
11. It is assumed that the project of 50,000 tonne of coating supporting 20,000 tonne of resin of Beacon Coatings is completed and put into operation as scheduled; because such construction project is a relocation and renovation project for Beacon Coatings, it is assumed that there will be no significant impact on the personnel when the project is put

into operation, such as that the main technicians, marketing personnel and production personnel will remain stable. It is assumed that the old factory will suspend production after the new factory achieves stable production, and it is assumed that the old factory will suspend production in mid-2023.

### **Expert qualification, consent and opinions**

The qualification of the expert who has given its statement in this announcement is as follows:

<b>Name</b>	<b>Qualification</b>
Moore Stephens CPA Limited	Certificate Public Accountants

As at the date of this announcement, the expert listed above 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 2022, being the date to which the latest published audited 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.

Moore Stephens CPA 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.

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

The Acquisition is in line with the development strategy of “one body, two wings and global layout” of BNBM and meets the needs of the development of the coating business. The implementation of the project can accelerate the pace of development of the coating business of the Group, cultivate new performance growth points and enhance its competitiveness.

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 and is in the interests of the Company and its shareholders as a whole.

Except that five Directors (including Mr. Zhou Yuxian, Mr. Li Xinhua, Mr. Chang Zhangli, Mr. Wang Yumeng and Mr. Wei Rushan) who are employed by the Parent or its subsidiaries outside the Group and thus need to abstain from voting on the Board resolution approving the Acquisition, none of the Directors has a material interest in the Acquisition.

## INFORMATION ON RELEVANT PARTIES AND BEACON COATINGS

### Company

The Company is a leading building materials company in the PRC with significant operations in basic building materials, new materials and engineering services businesses.

### Parent

The Parent is a state-owned limited liability company engaged in the business of building materials in the PRC.

### BNBM Coating

BNBM Coating is a wholly owned subsidiary of BNBM, which in turn is a non-wholly owned subsidiary of the Company and is principally engaged in the manufacturing and sales of coating.

### Beacon Coatings

Before the Acquisition, Beacon Coatings was the joint venture company of the Parent and BNBM Coating and is principally engaged in the manufacturing of industrial coating for the fields of aviation, aerospace, ship-building etc.. Upon the completion of the Acquisition, Beacon Coatings will become the wholly owned subsidiary of BNBM Coating, and therefore become the indirect subsidiary of the Company.

The net asset value as at the Valuation Reference Date (based on the latest audited consolidated accounts prepared in accordance with China's generally accepted accounting standards) and the Appraised Value as at the Valuation Reference Date (based on the Valuation Report issued by the Independent Valuer) of 100% equity interests in Beacon Coatings are as follows:

	<b>Net asset value</b> <i>(RMB million)</i>	<b>Appraised Value</b> <i>(RMB million)</i>
Beacon Coatings	<u>126.65</u>	<u>254.76</u>

Pursuant to the audited accounts prepared in accordance with generally accepted accounting principles of the PRC, the net profits (before and after taxation) of Beacon Coatings for the financial years ended 31 December 2021 and 2022 are as follows:

	For the financial year ended 31 December 2021		For the financial year ended 31 December 2022	
	Net profit before tax (RMB million)	Net profit after tax (RMB million)	Net profit before tax (RMB million)	Net profit after tax (RMB million)
Beacon Coatings	<u>10.44</u>	<u>10.07</u>	<u>21.94</u>	<u>16.21</u>

## IMPLICATIONS UNDER THE LISTING RULES

As the Parent has direct and indirect equity interests of approximately 44.92% in aggregate in the Company, it is the substantial shareholder of the Company and thus constitutes a connected person of the Company. Accordingly, the Acquisition of the 51% equity interests in Beacon Coatings by BNBM Coating from the Parent constitutes a connected transaction of the Company.

As one or more applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the Acquisition are higher than 0.1% but all applicable ratios are less than 5%, according to Rule 14A.76 of the Listing Rules, the Acquisition is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under the Listing Rules.

## DEFINITIONS

“Acquisition”	the acquisition of the Parent’s equity interests in Beacon Coatings by BNBM Coating
“Appraised Value”	the appraised value of Beacon Coatings in the Valuation Report
“Beacon Coatings”	Tianjin Beacon Coatings Co., Ltd.* (天津燈塔塗料工業發展有限公司)
“BNBM”	Beijing New Building Materials Public Limited Company* (北新集團建材股份有限公司), a company incorporated under the laws of the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000786)
“BNBM Coating”	BNBM Coating Limited Company* (北新塗料有限公司), the non-wholly owned subsidiary of the Company and the wholly owned subsidiary of BNBM
“Board”	the board of Directors of the Company



“Change of Business Registration”	the registrations and procedures to be done at relevant departments to transfer the Target Equity Interests
“Company”	China National Building Material Company Limited (中國建材股份有限公司), a joint stock limited company incorporated under the laws of the PRC, the H shares of which are listed on the Stock Exchange
“Consideration”	the cash consideration paid by BNBM Coating to the Parent for the Acquisition
“Directors”	the directors of the Company
“Equity Transfer Agreement”	the equity transfer agreement dated 28 April 2023 entered into between the Parent and BNBM Coating in connection with the Acquisition
“Group”	the Company and its subsidiaries from time to time
“Handover Reference Day”	the last day of the month in which the Equity Transfer Agreement takes effect
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Valuer”	Beijing Zhongfeng Assets Evaluation Co., Ltd.* (北京中鋒資產評估有限責任公司)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Parent”	China National Building Material Group Co, Ltd.* (中國建材集團有限公司), the parent company of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“PRC”	the People’s Republic of China (excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purpose of this announcement)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Equity Interests”	the 51% equity interests held by the Parent in Beacon Coatings which are agreed to be acquired by BNBM Coating

“Valuation Report”	The “Valuation Report” (Zhongfeng Review (2023) No.01048) 《評估報告》(中鋒評報字(2023)第01048號) produced by the Independent Valuer up to 30 September 2022 for the Acquisition
“Valuation Reference Date”	30 September 2022, the reference date of valuation of the Target Equity Interests in the Valuation Report
“%”	per cent

On behalf of the Board  
**China National Building Material Company Limited\***  
**Pei Hongyan**  
*Secretary of the Board*

Beijing, the PRC  
28 April 2023

*As at the date of this announcement, the board of directors of the Company comprises Mr. Zhou Yuxian, Mr. Wei Rushan, Mr. Liu Yan, Mr. Zhao Jiayang and Mr. Wang Bing as executive directors; Mr. Li Xinhua, Mr. Chang Zhangli, Mr. Shen Yungang and Ms. Fan Xiaoyan as non-executive directors; and Mr. Sun Yanjun, Mr. Liu Jianwen, Mr. Zhou Fangsheng, Mr. Li Jun 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, Moore Stephens CPA Limited, Certified Public Accountants in Hong Kong, for inclusion in this announcement.



**Moore Stephens CPA Limited**

801-806 Silvercord, Tower 1,  
30 Canton Road, Tsimshatsui,  
Kowloon, Hong Kong

T +852 2375 3180

F +852 2375 3828

[www.moore.hk](http://www.moore.hk)

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### INDEPENDENT REPORT ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE EQUITY INTEREST IN TIANJIN BEACON COATINGS INDUSTRY DEVELOPMENT CO., LTD. (“BEACON COATINGS”)

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

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Beijing Zhongfeng Assets Evaluation Co., Ltd. dated 23 April 2023 in respect of the 100% equity interest of the Beacon Coatings as at 30 September 2022 (the “**Valuation**”) is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and will be included in an announcement of the Company dated 28 April 2023 in connection with the proposed acquisition of equity interests in Beacon Coatings (the “**Announcement**”).

#### *Directors’ responsibilities for the discounted future estimated cash flows*

The directors of the Company and Beacon Coatings (the “**Directors**”) are solely responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and set out in the section headed “Profit Forecast” of the Announcement (the “**Assumptions**”). The responsibilities include carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

### ***Reporting accountants' independence and quality management***

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

Our firm applies Hong Kong Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### ***Reporting accountants' responsibilities***

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with 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 comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the management of the Company and Beacon Coatings, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of Beacon Coatings.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

***Opinion***

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

**Moore Stephens CPA Limited**

Certified Public Accountants

**Cheung Sai Kit**

Practising Certificate Number: P05544

Hong Kong, 28 April 2023

## APPENDIX II – LETTER FROM THE BOARD

28 April 2023

The Listing Division  
The Stock Exchange of Hong Kong  
12/F, Two Exchange Square  
8 Connaught Place, Central, Central, Hong Kong

Dear Sirs,

### CONNECTED TRANSACTION – ACQUISITION OF BEACON COATINGS

We refer to the valuation report (Zhongfeng Review (2023) No.01048) dated 23 April 2023 in relation to the valuation of the equity interests of Tianjin Beacon Coatings Co., Ltd.\* (天津燈塔塗料工業發展有限公司) (“**Beacon Coatings**”) as at 30 September 2022 prepared by Beijing Zhongfeng Assets Evaluation Co., Ltd.\* (北京中鋒資產評估有限責任公司) (“**Independent Valuer**”) (the “**Valuation**”).

Since the consideration in respect of 51% of the equity interests in Beacon Coatings is based on the results of Valuation adopting the value of the discounted cash flow method which is a type of income approach, the amount of consideration constitutes a profit forecast under Rules 14A.06(32) and 14.61 of 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 Valuations have been prepared, and reviewed the Valuations for which the Independent Valuer is responsible. We have also considered the reports from our reporting accountant, Moore Stephens CPA Limited, regarding whether the Valuations were compiled properly so far as the calculations are concerned.

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

Yours faithfully,  
By order of the Board  
**China National Building Material Company Limited\***  
**Mr. Zhou Yuxian**  
*Chairman*

Beijing, the PRC

\* *For identification purposes only*