

27 January 2025

To: *The independent board committee of China National Building Material Company Limited**

Dear Sir/Madam,

**(1) CONDITIONAL CASH OFFER BY MORGAN STANLEY ASIA LIMITED
ON BEHALF OF
CHINA NATIONAL BUILDING MATERIAL COMPANY LIMITED
TO BUY-BACK UP TO 841,749,304 H SHARES
AT HK\$4.03 PER H SHARE;
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee in respect of the Offer and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the Offer Document dated 27 January 2025 issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Offer Document unless the context requires otherwise.

On 6 December 2024 (the “**Announcement Date**”), the Board announced that Morgan Stanley, on behalf of the Company, firmly intends, subject to the satisfaction of the Pre-Conditions, to make a cash offer to buy-back for cancellation, up to the Maximum Number, being 841,749,304 H Shares, representing approximately 9.98% of the issued Shares and approximately 18.47% of the issued H Shares as at the Latest Practicable Date, at the Offer Price of HK\$4.03 per H Share. The H Shares to be bought-back by the Company will not exceed the Maximum Number. The consideration for the Offer, being a total of HK\$3,392,249,695 if the Offer is accepted in full, will be paid to the Accepting Shareholders in cash and will be funded by internal cash resources of the Group. On 24 January 2025, the Company announced that the Pre-Conditions had been satisfied.

As at the Latest Practicable Date, the CNBM Parent Concert Group held 3,797,269,981 Shares (including 183,964,000 H Shares and 3,613,305,981 Domestic Shares), representing approximately 45.02% of the total number of issued Shares as at the Latest Practicable Date. Pursuant to Rule 32 of the Takeovers Code and Rule 6 of the Share Buy-backs Code, if as a result of a share buy-back, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code.

Depending on the level of acceptances received from the Accepting Shareholders pursuant to the Offer, taking into account all the Conditions are fulfilled or waived (where applicable), the aggregate interests of the CNBM Parent Concert Group may increase to a maximum level of approximately 50.01% of the issued share capital of the Company upon completion of the Offer, thereby triggering an obligation under Rule 26 of the Takeovers Code for CNBM Parent to make a mandatory general offer for all the Shares not already owned by it and parties acting in concert with it. Accordingly, an application has been made to the Executive by CNBM Parent for the Whitewash Waiver. The Executive has indicated that it is minded, subject to the approval of the Independent Shareholders for the Offer and the Whitewash Waiver at the EGM by way of poll, to waive any obligation of CNBM Parent to make a general offer which might result from completion of the Offer.

The Offer is conditional upon the approval of the relevant resolutions at the EGM, the H Shareholders' Class Meeting and the Domestic Shareholders' Class Meeting, the Offer and the Whitewash Waiver being approved by the Independent Shareholders at the EGM and the Whitewash Waiver being granted by the Executive.

If the Offer or the Whitewash Waiver is not approved by the Independent Shareholders, or if the Whitewash Waiver is not granted by the Executive, the Offer will not proceed and will immediately lapse.

The Independent Board Committee, comprising all the non-executive Directors (except Mr. Wang Yumeng who is a deputy general manager of CNBM Parent), namely Mr. Shen Yungang and Mr. Chen Shaolong, and all the independent non-executive Directors, namely Mr. Sun Yanjun, Mr. Liu Jianwen, Mr. Zhou Fangsheng, Mr. Li Jun and Ms. Xia Xue, who have no direct or indirect interest in the Offer and the Whitewash Waiver, has been formed to advise the Independent Shareholders in respect of the Offer and the Whitewash Waiver. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer and the Whitewash Waiver pursuant to Rule 2.1 of the Takeovers Code.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company, or any of the parties as prescribed under Rule 2.6 of the Takeovers Code during the past two years immediately preceding the commencement of the Offer Period up to and including the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Offer Document and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Offer Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Offer Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Offer and the Whitewash Waiver. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "1. Responsibility Statement" of Appendix IV to the Offer Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Offer Document, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNBM Parent or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Offer and the Whitewash Waiver.

Our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Offer and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

1. Background and terms of the Offer

On 6 December 2024, the Board announced that, Morgan Stanley, on behalf of the Company, firmly intends, subject to the satisfaction of the Pre-Conditions, to make a cash offer to buy-back for cancellation, up to the Maximum Number, being 841,749,304 H Shares, representing approximately 9.98% of the issued Shares and approximately 18.47% of the issued H Shares as at the Latest Practicable Date, at the Offer Price of HK\$4.03 per H Share. The H Shares to be bought-back by the Company will not exceed the Maximum Number.

The consideration for the Offer, being a total of HK\$3,392,249,695 if the Offer is accepted in full, will be paid to the Accepting Shareholders in cash and will be funded by internal cash resources of the Group.

On 24 January 2025, the Company announced that the Pre-Conditions had been satisfied.

Further details of the Offer are set out in Appendix I to the Offer Document.

2. Background of the Group

2.1 *Financial information of the Group*

With reference to the Board Letter, the Company is a leading building materials company in the PRC with significant operations in basic building materials, new materials and engineering technical services businesses.

Set out below are the consolidated financial information of the Group (which were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board) for the two years ended 31 December 2023 and the six months ended 30 June 2024 (together with comparative figures) as extracted from the Company's

cement segment and concrete segment, the “**Basic Building Materials Segment**”), which was partially offset by increases in the revenue of the engineering technical services segment and the new materials segment.

The decrease in revenue of Basic Building Materials Segment for FY2023 was mainly attributable to the decrease in the average selling price of cement products, commercial concrete and aggregate and the decrease in sales volume of cement products, commercial concrete, which was partially offset by the increase in sales volume of aggregate.

The increase in revenue of the new materials segment was mainly attributable to the increase in the sales volume of gypsum board, glass fiber yarn, wind power blade and lithium battery separator, which was partially offset by the decrease in the average selling price of gypsum board, glass fiber yarn, wind power blade and lithium battery separator.

The increase in revenue of the engineering technology services was mainly attributable to the increase in the numbers of engineering services completed for FY2023.

For FY2023, the Group also recorded decreases in gross profit and profit for the year attributable to owners of the Company of approximately 6.02% and 52.48% respectively, as compared to those for FY2022. With reference to the 2023 Annual Report, the decrease in gross profit for FY2023 was mainly due to (i) the aforesaid decrease in revenue for FY2023; and (ii) the decrease in the gross profit of the Basic Building Materials Segment, which was mainly due to the decrease in average selling price of cement products, commercial concrete, and aggregate, which was partially offset by the decrease in coal price. The decrease in profit for the year attributable to owners of the Company for FY2023 was mainly attributable to the decrease in revenue of the Group, the decline in performance attributed by the associates and the reduction in gains on disposal of assets, although part of which has been offset by the decrease in cost of sales of cement and commercial concrete and the decrease in the Group's net loss from change in fair value of financial assets at fair value through profit or loss.

According to the table above, the Group recorded (i) equity attributable to owners of the Company of approximately RMB107.33 billion as at 31 December 2022 and approximately RMB105.33 billion as at 31 December 2023; and (ii) cash and cash equivalents of approximately RMB26.99 billion as at 31 December 2022 and approximately RMB27.43 billion as at 31 December 2023. The Group's total assets and total liabilities remained stable as at 31 December 2023 as compared to those as at 31 December 2022.

1H2024

According to the table above, the Group's revenue was approximately RMB83.47 billion for 1H2024, representing a decrease of approximately 18.46% as compared to that for the corresponding period in 2023. With reference to the 2024 Interim Report, the decrease in the Group's revenue for 1H2024 was mainly due to the decrease in the revenue of the Basic Building Materials Segment, which was mainly attributable to the decrease in the sales volumes of cement products and aggregate, as well as the decrease in the average selling price of cement products, commercial concrete and aggregate.

The Group also recorded a decrease of approximately 24.72% in gross profit for 1H2024 as compared to that for the corresponding period in 2023. With reference to the 2024 Interim Report, such decrease was mainly due to the decrease in the gross profit of the Basic Building Materials Segment (causing by the decrease in the average selling price of cement products, commercial concrete and aggregate, partially offset by the decrease in the coal price).

Moreover, the Group recorded loss for the period attributable to owners of the Company for 1H2024 while the Group recorded profit for the period attributable to owners of the Company for the corresponding period in 2023. With reference to the 2024 Interim Report, such turnaround was mainly attributable to the decrease in revenue of the Group and the decline in performance attributed by the associates, although part of which has been offset by the decrease in cost of sales of cement and commercial concrete.

According to the table above, as at 30 June 2024, the Group recorded equity attributable to owners of the Company of approximately RMB98.89 billion and cash and cash equivalents of approximately RMB24.81 billion, represented decreases of approximately 6.11% and 9.56% respectively as compared to those as at 31 December 2023. There was no substantial change in the Group's total assets and total liabilities as at 30 June 2024 as compared to those as at 31 December 2023.

3Q2024

Set out below are the consolidated financial information of the Group (which were prepared in accordance with PRC GAAP) for the nine months ended 30 September 2024 (“3Q2024”) (together with comparative figures) as extracted from the Company’s third quarterly report of 2024 as published by the Company on 25 October 2024:

	For the nine months ended 30 September 2024 (unaudited) RMB'000	For the nine months ended 30 September 2023 (unaudited) RMB'000	Year-on-year change %
Total operating revenue	134,233,570	159,580,914	(15.88)
Operating profit	3,034,285	7,508,078	(59.59)
Net profit/(loss) attributable to the owners of the Company	(684,380)	2,353,249	N/A
			Change from 31 December 2023 to 30 September 2024
	As at 30 September 2024 (unaudited) RMB'000	As at 31 December 2023 (unaudited) RMB'000	%
Total assets	501,812,957	488,789,092	2.66
Total liabilities	311,024,502	295,276,026	5.33
Total owners' equity attributable to the Company	116,577,955	123,186,865	(5.36)
Cash and bank balance	27,443,871	32,268,376	(14.95)

According to the table above, the Group recorded total operating revenue of approximately RMB134.23 billion for 3Q2024, representing a decrease of approximately 15.88% as compared to that for the corresponding period in 2023. As advised by the Directors, such decrease in total operating revenue (i) was mainly due to decrease in revenue from the Basic Building Materials Segment; and (ii) led to substantial decrease in the Group’s operating profit for 3Q2024 as compared to that for the corresponding period in 2023. The Group recorded net loss attributable to the owners of the Company for 3Q2024 as compared to net profit attributable to the owners of the Company for the corresponding period in 2023. As advised by the Directors, the aforesaid turnaround was mainly attributable to the decrease in the total operating revenue of the Group and the decline in performance attributed by the associates, although part of which has been offset by the decrease in cost of sales of cement and commercial concrete and the decrease in the Group’s net loss from change in fair value of financial assets at fair value through profit or loss.

According to the table above, the Group recorded (i) total owners' equity attributable to the Company of approximately RMB123.19 billion as at 31 December 2023 and approximately RMB116.58 billion as at 30 September 2024; and (ii) cash and bank balance of approximately RMB32.27 billion as at 31 December 2023 and approximately RMB 27.44 billion as at 30 September 2024. There was no substantial change in the Group's total assets and total liabilities as at 30 September 2024 as compared to those as at 31 December 2023.

FY2024 (profit estimate)

With reference to the section headed "IV. Material Change" as contained in Appendix II to the Offer Document, the Group's net profit for the year ended 31 December 2024 was substantially lower than that for the year ended 31 December 2023 (the "Estimated Profit Statement"). The aforesaid decrease was mainly attributable to the decrease in the Group's total operating revenue (which was mainly due to the decrease in the sales volumes of cement products as well as the decrease in the average selling price of commercial concrete and aggregate, all being the Group's major products), as partially offset by the decrease in the Group's total operating costs (which was mainly due to the decrease in cost of sales of commercial concrete of the Group). The Estimated Profit Statement constitutes a profit forecast under Rule 10 of the Takeovers Code, and is required to be reported on by the Independent Financial Adviser and the auditor of the Company in accordance with the requirements under Rule 10 of the Takeovers Code. Please refer to Appendix V to the Offer Document for relevant reports thereon.

2.2 Industry overview

As the Group principally engaged in the production and sale of building materials, we searched for certain relevant indicators in the PRC as summarised below.

Set out below are the total investment in fixed assets in the PRC (together with the investment in real estate development in the PRC) for 2019, 2020, 2021, 2022 and 2023 (in absolute value), as extracted from China Statistical Yearbook (2024) which was compiled by the National Bureau of Statistics of the PRC:

	2019	2020	2021	2022	2023
Total investment in fixed assets (absolute value – RMB' billion)	43,954.10	45,115.50	47,300.30	49,596.60	50,970.80
<i>Year-on-year change (%)</i>	5.10	2.64	4.84	4.85	2.77
– Investment in real estate development (absolute value – RMB' billion)	12,361.00	13,201.40	13,763.30	12,384.80	11,214.20
<i>Year-on-year change (%)</i>	9.64	6.80	4.26	(10.02)	(9.45)

According to the table above, total investment in fixed assets of the PRC (in absolute value) grew continuously during the last five years from 2019 to 2023, and reached approximately RMB50,970.8 billion in 2023, representing a compound annual growth rate (“CAGR”) of approximately 3.77%. The investment in real estate development of the PRC (in absolute value) increased from approximately RMB12,361.0 billion in 2019 to approximately RMB13,763.3 billion in 2021, and decreased subsequently in 2022 and 2023. The investment in real estate development of the PRC (in absolute value) for 2023 was approximately 9.28% less than that for 2019.

Moreover, we also summarised the year-on-year change in infrastructure investment (excluding power, heat, gas and water production and supply industries) of the PRC for 2019, 2020, 2021, 2022 and 2023, as published by the National Bureau of Statistics of the PRC:

	2019	2020	2021	2022	2023
Year-on-year change in infrastructure investment (excluding power, heat, gas and water production and supply industries) (%)	3.8	0.9	0.4	9.4	5.9

According to the table above, the infrastructure investment (excluding power, heat, gas and water production and supply industries) of the PRC increased continuously for the last five years from 2019 to 2023, representing an average year-on-year increase of approximately 4.1%.

In addition, we also summarised the policies regarding the building material industry which were respectively related to the Group’s Basic Building Materials Segment and the Group’s new materials segment (i.e. fiberglass, composite and light building materials) as issued by the PRC government in recent years as below:

Policies related to the Group’s Basic Building Materials Segment

On 22 August 2023, the Ministry of Industry and Information Technology of the PRC, the National Development and Reform Commission of the PRC, the Ministry of Finance of the PRC, the Ministry of Natural Resources of the PRC, the Ministry of Ecology and Environment of the PRC, the Ministry of Housing and Urban-Rural Development of the PRC, the Ministry of Commerce of the PRC and the National Financial Regulatory Administration of the PRC jointly issued an article titled “Stable Growth Work Plan for the Building Materials Industry*” (《建材行業穩增長工作方案》, the “**Building Material Work Plan**”), which stated that the PRC government should support optimizing production capacity layout for special cement, quick-setting materials, etc., enhance material supply capability under emergency conditions, encourage the use of bulk cement, pre-mixed concrete, pre-mixed mortar products for different application areas such as agricultural buildings and infrastructure, and support the implementation of typical demonstrations of green construction solutions.

On 19 January 2024, the Ministry of Ecology and Environment of the PRC, the National Development and Reform Commission of the PRC, the Ministry of Industry and Information Technology of the PRC, the Ministry of Finance of the PRC and the Ministry of Transport of the PRC jointly published an article titled “Opinions on Advancing the Implementation of Ultra-Low Emissions in the Cement Industry*” (《關於推進實施水泥行業超低排放的意見》), which stated that the PRC government should promote the implementation of ultra-low emissions in the cement industry, enhance the comprehensive atmospheric pollution control level throughout all processes of the cement industry, drive the industry’s green and low-carbon transformation and upgrade, and increase support for cement enterprises that meet the requirements for ultra-low emissions transformation.

On 27 May 2024, the National Development and Reform Commission of the PRC, the Ministry of Industry and Information Technology of the PRC, the Ministry of Ecology and Environment of the PRC, the State Administration for Market Regulation of the PRC and the National Energy Administration of the PRC jointly issued the “Special Action Plan for Energy Conservation and Carbon Reduction in the Cement Industry*” (《水泥行業節能降碳專項行動計劃》), which stated that the PRC clinker production capacity of cement will be controlled at around 1.8 billion tons by the end of 2025, with the proportion of capacity exceeding the energy efficiency benchmark reaching 30%, and the PRC cement industry’s production capacity layout will be further optimized by the end of 2030, the proportion of capacity exceeding the energy efficiency benchmark will increase significantly, and overall efficiency will reach international advanced levels.

On 17 October 2024, the Ministry of Industry and Information Technology of the PRC issued “Implementation Measures for Capacity Replacement in the Cement and Glass Industry (2024 Edition)*” (《水泥玻璃行業產能置換實施辦法(2024年本)》), which stated that it is strictly prohibited to add new capacity for cement clinker and flat glass projects that have been filed; if it is deemed necessary to establish new construction or renovation, a capacity replacement plan must be formulated to implement equivalent or reduced capacity replacement.

Policies related to the Group’s new materials segment

In addition to those regime that are related to the Group’s Basic Building Material Segment, the Building Materials Work Plan also stated that the PRC government should support key enterprises in cement, glass, ceramics, glass fibers, gypsum products, etc., to jointly establish research and development institutions and green industrial parks, enhancing the global industrial chain’s supply chain resilience and security level.

On 29 December 2023, the Ministry of Industry and Information Technology of the PRC, the National Development and Reform Commission of the PRC, the Ministry of Ecology and Environment of the PRC, the Ministry of Housing and Urban-Rural Development of the PRC, the Ministry of Agriculture and Rural Affairs of the PRC, the Ministry of Commerce of the PRC, the People’s Bank of China, the State Administration for Market Regulation of the PRC, the National Financial Regulatory Administration of the PRC and the National Radio and Television Administration of the PRC jointly issued the “Implementation Plan for the High-Quality Development of the Green Building Materials Industry*” (《綠色建材產業高質量發展

實施方案)), which stated that the PRC government should drive production transformation, enhance industrial endogenous forces, support key industries such as cement, flat glass, architectural sanitary ceramics, glass fibers and products to carry out integrated applications of energy conservation, carbon reduction, and pollution control technologies.

On 11 January 2024, an article titled “Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Comprehensive Development of Beautiful China*” (《中共中央 國務院關於全面推進美麗中國建設的意見》) was published on the official website of the State Council of the PRC, which stated that the PRC government should coordinate the promotion of green and low-carbon development in key areas, accelerate energy-saving and carbon reduction renovations of existing buildings and municipal infrastructure, and promote the large-scale development of ultra-low energy consumption and low-carbon buildings.

On 29 May 2024, the State Council of the PRC issued “Energy Conservation and Carbon Reduction Action Plan for 2024-2025*” (《2024-2025年節能降碳行動方案》), which stated that the PRC government should increase efforts in the development of non-fossil energy sources, accelerate the construction of large wind and photovoltaic bases focusing on deserts and wastelands, and develop offshore wind power in a rational and orderly manner, expedite the construction of outbound channels for large wind and photovoltaic bases, and enhance inter-provincial and inter-regional power transmission capacity.

Having considered that (i) although the investment in real estate development in the PRC (in absolute value) decreased in 2022 and 2023, the total investment in fixed assets in the PRC (in absolute value) grew continuously for the last five years (from 2019 to 2023), indicating a growing demand for the building materials in the PRC market; (ii) the infrastructure investment (excluding power, heat, gas and water production and supply industries) of the PRC increase continuously for the last five years (from 2019 to 2023); and (iii) the relevant PRC government-issued policies as aforementioned stipulated and promoted low-carbon transformation and production capacity restructuring in the PRC building material industry, we are of the view that although the PRC building material industry may face various challenges in short-term (i.e. the in-depth adjustment of the real estate and funding constraints for infrastructure projects, the cement industry showed the characteristics of “sluggish demand, low price, and industrial losses” as stated in the 2024 Interim Report), the PRC building material industry is currently under continuous reform (the relevant PRC government-issued policies as mentioned in (iii) and relevant government departments is continuously issuing favourable policies to support the recovery of sluggish PRC property market) and the prospects of which are generally positive in long-run.

3. Intention in relation to the CNBM Parent

With reference to the Announcement, the CNBM Parent is a state-owned limited liability company engaged in the business of building materials in the PRC.

It is the intention of the Group and CNBM Parent that the Group will continue to carry on its business, and the Company's listing on the Stock Exchange will be maintained upon completion of the Offer. As at the Latest Practicable Date, the Group and CNBM Parent do not have specific plans: (a) to introduce any major changes to the existing principal business of the Group (including, without limitation, those set out under the section headed "Information on the Company" of the Board Letter); (b) to re-deploy the material fixed assets of the Group; (c) to discontinue the employment of the employees of the Group other than in the ordinary course of business of the Group or due to personal performance or conduct issues; or (d) in relation to any intention, understanding, negotiation or arrangement (concluded or otherwise) to downsize, cease or dispose of any of the existing businesses of the Group following the close of the Offer.

4. Reasons for and the benefits of the Offer

With reference to the Offer Document, (i) the Offer (which represents premiums over the closing price of the H Shares on the Last Trading Day and the average closing price per H Share for recent trading days) provides the Shareholders a mechanism which allows them to decide upon their preferred level of investment in the Company and allows the Shareholders who do not wish to exit from their investments in the Company to enjoy the benefits of enhanced Shareholder value; (ii) the Offer demonstrates the Company's confidence in long-term prospects and intrinsic value; (iii) the Offer will also improve the trading dynamics and refresh the Company's shareholders' structure; and (iv) the Offer will enhance net asset value per Share upon completion of the Offer. After considering (i) the analysis of the Offer Price as set out under the section headed "5. Offer Price" below; (ii) the unaudited pro forma financial information of the Group as summarised in paragraphs below; and (iii) the market information of the PRC building material industry as set out under the section headed "2.2 Industry overview" above, we concur with the Directors in this regard.

Based on the Group's net asset value attributable to owners of the Company ("NAV") as at 30 September 2023, 31 December 2023, 31 March 2024, 30 June 2024 and 30 September 2024 as disclosed in the Company's relevant consolidated financial statements (which were prepared in accordance with PRC GAAP) and 8,434,770,662 Shares in issue as at the Latest Practicable Date, the closing price of the H Shares has historically been traded at significant discount ranged from approximately 68.11% to approximately 83.82% to the Group's NAV per Share from 1 December 2023 (being approximately one year prior to the Last Trading Day, which is commonly adopted for analysis and the number of trading days during the said period is sufficient for us to perform a thorough analysis on the historical NAV discounts of the H Shares) up to the Latest Practicable Date (the "Shares Review Period"). We consider the duration of the Shares Review Period is adequate, fair and representative. During the period from 1 December 2023 (being approximately one year prior to the Last Trading Day) up to and including the Last Trading Day, the highest closing price per Share as quoted on the Stock Exchange was HK\$4.06 on 7 October 2024 and the lowest closing price per H Share as quoted on the Stock Exchange was HK\$2.06 on 11 September 2024. The closing price of HK\$4.06 per H Share on 7 October 2024 (being the highest closing price per H Share during the Shares Review Period) represents a discount of approximately 68.11% to the NAV per Share as at 30 June 2024 of approximately RMB11.76 (which were prepared in accordance with PRC GAAP and equivalent to approximately HK\$12.73 based on the exchange rate of HK\$1: RMB0.9235). Please refer to the section headed "5. Offer Price" below for our further analysis.

Based on the unaudited pro forma financial information of the Group as set out in Appendix III to the Offer Document and assuming the Offer had taken place on 31 December 2023 or 1 January 2023 (as the case may be), as a result of the completion of the Offer:

- the net assets per Share attributable to equity shareholders of the Company as at 31 December 2023 would increase by approximately 9.29% from approximately RMB22.94 per Share to approximately RMB25.07 per Share;
- the basic earnings per Share attributable to equity shareholders of the Company for FY2023 would increase by approximately 11.14% from approximately RMB0.458 per Share to approximately RMB0.509 per Share and the diluted earnings per Share attributable to equity shareholders of the Company for FY2023 would increase by approximately 11.11% from approximately RMB0.450 per Share to approximately RMB0.500 per Share;
- the consolidated total liabilities of the Group as at 31 December 2023 would remain unchanged at approximately RMB295.38 billion; and
- the working capital (expressed as net current liabilities) of the Group as at 31 December 2023 will increase by approximately 11.16% from approximately RMB28.29 billion to approximately RMB31.45 billion and the current ratio (computed from current assets divided by current liabilities) of the Group will decrease by approximately 2.13% from approximately 0.84 times to approximately 0.82 times

Details of the calculation and the underlying assumptions are set out in Appendix III to the Offer Document.

In light of the above, we are of the view that the Offer will:

- (i) provide an opportunity for the H Shareholders either to tender H Shares to realise part of their investments in the Company at a premium to recent market prices, or to increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group; and
- (ii) enhance net assets per Share attributable to equity shareholders of the Company upon completion of the Offer.

Although the H Shareholders can increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group with enhanced Shareholder value (which may be arrived as results of (i) enhancing net assets per Share attributable to equity shareholders of the Company upon completion of the Offer; (ii) that the Company will continue to strengthen innovation-driven development, accelerate the construction of a modern industrial system, and build up a listed platform which is a global leader in the materials sector; and/or (iii) that the prospects of the PRC building material industry are generally positive in long-run), the Offer Price of HK\$4.03 per H Share represents a premium over the closing price of the H Shares on the Last Trading Day and premiums over the average closing price of the H Shares for the 5, 10, 30, 60 consecutive trading days up to and including the Last Trading Day, indicating that the Offer

provides an excellent opportunity for the Shareholders to realize their investments in the Company. In addition, although the Offer Price of HK\$4.03 per H Share represents discounts to the Group's NAV per Share as at 30 September 2023, 31 December 2023, 31 March 2024, 30 June 2024 and 30 September 2024, we consider such discounts did not affect our analysis on the basis that the closing price of the H Shares has historically been traded at significant discount (ranged from discount of approximately 68.11% to discount of approximately 83.82%) to the then prevailing NAV per Share during the entire Shares Review Period.

5. Offer Price

5.1 Offer Price comparison

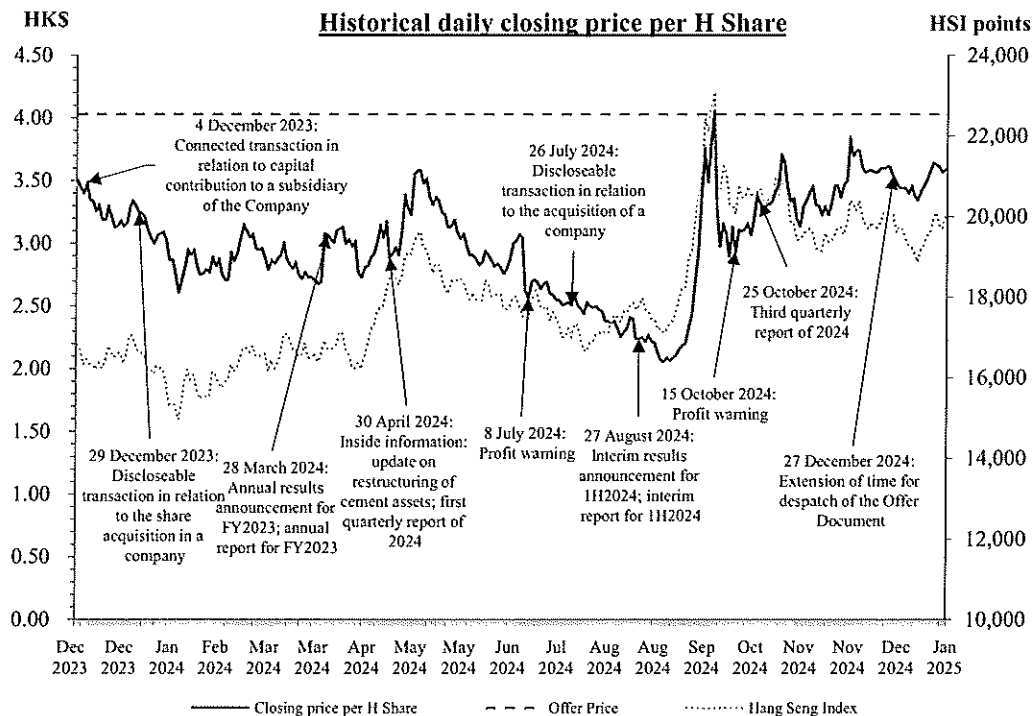
The Offer Price of HK\$4.03 per H Share represents:

- (a) a premium of approximately 12.3% over the closing price of the H Shares of HK\$3.59 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 15.1% over the closing price of the H Shares of HK\$3.50 per H Share as quoted on the Stock Exchange on the Last Trading Day (the "**LTD Premium**");
- (c) a premium of approximately 16.7% over the average closing price of approximately HK\$3.45 per H Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day (the "**5 Days Premium**");
- (d) a premium of approximately 19.8% over the average closing price of approximately HK\$3.36 per H Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day (the "**10 Days Premium**");
- (e) a premium of approximately 19.5% over the average closing price of approximately HK\$3.37 per H Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day (the "**30 Days Premium**");
- (f) a premium of approximately 29.1% over the average closing price of approximately HK\$3.12 per H Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Last Trading Day (the "**60 Days Premium**");
- (g) a discount of approximately 70.2% to the Group's audited net asset value attributable to the Shareholders of approximately RMB12.49 (equivalent to approximately HK\$13.52 based on the exchange rate of HK\$1: RMB0.9235) per Share pursuant to the latest audited consolidated financial statements of the Company as at 31 December 2023 (prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board), calculated based on the audited consolidated net asset value attributable to the Shareholders of RMB105,325,482,000 as at 31 December 2023 and 8,434,770,662 Shares in issue as at the Latest Practicable Date; and

- (h) a discount of approximately 68.6% to the Group's unaudited net asset value attributable to the Shareholders of approximately RMB11.86 (equivalent to approximately HK\$12.84 based on the exchange rate of HK\$1: RMB0.9235) per Share pursuant to the unaudited consolidated financial statements of the Company as at 30 September 2024 (prepared in accordance with PRC GAAP), calculated based on the unaudited consolidated net asset value attributable to the Shareholders of RMB100,023,628,409 as at 30 September 2024 and 8,434,770,662 Shares in issue as at the Latest Practicable Date (the "2024Q3 NAV Discount").

5.2 Historical price performance of the H Shares

Set out below is a chart showing the movement of the closing prices of the H Shares during the Shares Review Period, to illustrate the general trend and level of movement of the closing prices of the H Shares.



Source: the Stock Exchange's website and Wind Financial Terminal

During the Shares Review Period, the lowest and highest closing prices of the H Shares as quoted on the Stock Exchange were HK\$2.06 recorded on 11 September 2024 and HK\$4.06 recorded on 7 October 2024 respectively. The Offer Price of HK\$4.03 represents (i) a significant premium of approximately 95.63% over the lowest closing price of the H Shares; and (ii) a slight discount of approximately 0.74% to the highest closing price of the H Shares, as quoted on the Stock Exchange during the Shares Review Period. In addition, the Offer Price of HK\$4.03 is above the daily closing prices of the H Shares for 281 trading days out of total 282 trading days during the Shares Review Period.

From the start of the Shares Review Period, the closing price of H Shares followed a downward trend, decreasing from HK\$3.50 as recorded on 1 December 2023 to HK\$2.61 as recorded on 22 January 2024. Subsequently, the closing price of the H Shares followed an upward trend and reached HK\$3.58 on 17 May 2024 and 20 May 2024. Thereafter, the closing price of the H Shares followed a downward trend and hit the lowest of HK\$2.06 on 11 September 2024. Since then, the closing price of the H Shares rebounded and reached the highest of HK\$4.06 on 7 October 2024 before it decreased sharply to HK\$3.28 on 8 October 2024. Subsequently, the closing price of the H Shares fluctuated and recorded HK\$3.50 on the Announcement Date.

Following the publication of the Announcement and up to the Latest Practicable Date, the closing price of H Shares fluctuated between HK\$3.35 and HK\$3.85.

Save as the boost in the PRC stock market at the end of September 2024 and beginning of October 2024 due to favourable policies promulgated by the PRC regulators/government and except for the movement of the closing price of the H Shares is in line with the movement of Hang Seng Index, we did not identify any specific reason which caused the aforesaid fluctuation of the closing price of the H Shares.

5.3 Historical trading liquidity of the H Shares

Set out below is a table showing the average daily number of the H Shares traded per month, and the respective percentages of the H Shares' monthly trading volume as compared to (i) the total number of issued H Shares held by the public; and (ii) the total number of issued H Shares as at the Latest Practicable Date, to illustrate the trading liquidity of H Shares during the Shares Review Period:

Month	Number of trading days in each month	Average daily trading volume (the "Average Volume") <i>Number of Shares</i>	% of the Average Volume to total number of issued H Shares held by Independent Shareholders <i>(Note 1)</i> %	% of the Average Volume to total number of issued H Shares <i>(Note 2)</i> %
2023				
December	19	14,760,000	0.337	0.324
2024				
January	22	18,153,756	0.415	0.398
February	19	17,558,176	0.401	0.385
March	20	27,105,721	0.620	0.595
April	20	31,147,717	0.712	0.683
May	21	44,661,166	1.021	0.980
June	19	29,544,101	0.675	0.648
July	22	25,728,071	0.588	0.564
August	22	23,003,617	0.526	0.505
September	19	55,615,372	1.271	1.220
October	21	76,228,587	1.743	1.672
November	21	28,631,359	0.655	0.628
December	20	34,190,706	0.782	0.750
- 2 December 2024 to the Last Trading Day	5	24,854,054	0.568	0.545
- 9 December 2024 to 31 December 2024	15	37,302,923	0.853	0.818
2025				
January (up to and including the Latest Practicable Date)	17	18,295,871	0.418	0.401

Source: the Stock Exchange website

Notes:

1. Based on 4,374,182,500 H Shares held by the Independent Shareholders as at the Latest Practicable Date.
2. Based on 4,558,146,500 H Shares in issue as at the Latest Practicable Date.

We noted from the above table that the Average Volume of H Shares was thin during the Shares Review Period. During the Shares Review Period, the Average Volume of H Shares was below 2% of the total number of issued H Shares held by the public and the total number of issued H Shares as at the Latest Practicable Date.

Given the thin Average Volume of the H Shares during the Shares Review Period, it is uncertain as to whether there would be sufficient liquidity in the H Shares for the H Shareholders to dispose of a significant number of H Shares in the open market without causing an adverse impact on the market price level of the H Shares.

5.4 Comparison with other comparable companies

We noted that trading multiples analysis is a commonly adopted method for the purpose of assessing the fairness and reasonableness of the Offer Price. In this regard, we attempted to search for Hong Kong listed companies which are principally engaged in similar line of businesses as the Group (i.e. basic building materials, new materials and engineering services businesses). However, we could not find any Hong Kong listed company based on the aforesaid selection criteria.

Given that the Group's Basic Building Materials Segment was approximately RMB118.8 billion (accounting for more than 50% to its total revenue) for FY2023, we re-set the following criteria: the listed company is principally engaged in manufacturing and sale of basic building materials (mainly cement and concrete) with no less than RMB50 billion of revenue generated from such segment for the latest financial year and accounting for more than 50% to total revenue for the corresponding period. However, we could only find BBMG Corporation (stock code: 2009 & SH601992) and Anhui Conch Cement Company Limited (stock code: 914 & SH600585), which could meet our selection criteria. Given the sample size (i.e. only two comparable companies), we consider that the trading multiples analysis is impracticable in this case.

5.5 Comparison with other share buy-back cases

To further assess the fairness and reasonableness of the Offer Price, we also searched for comparable share buy-back transactions by way of a general offer conducted by other listed companies in Hong Kong which involved application for whitewash waiver, announced on the Stock Exchange from 1 December 2021 (being approximately three years prior to and up to the Last Trading Day) that were not lapsed up to the Latest Practicable Date (the "Buy-back Cases"). We consider the review period covering approximately three years prior to the Last Trading Day is appropriate as it would allow us to identify sufficient number of Buy-back Cases to assess the market practice of share buy-back transactions that involves application of

whitewash waiver. We found six Buy-back Cases which meet the aforesaid criteria for comparison and they are exhaustive. Although the business and operation of the Group are not the same as those of the companies of the Buy-back Cases, the Buy-back Cases can demonstrate the market practices of share buy-back by way of partial offer conducted by other Hong Kong listed companies.

Company name (stock code)	Date of initial announcement	Premium of the offer price over the closing price of share on the last full trading day	Premium of the	Premium of the	Premium of the	Premium/ (discount) of the	Premium/ (discount) of offer
			offer price over the average closing price of shares for 5 consecutive trading days up to and including the last full trading day	offer price over the average closing price of shares for 10 consecutive trading days up to and including the last full trading day	offer price over the average closing price of shares for 30 consecutive trading days up to and including the last full trading day	offer price over/ (to) the average closing price of shares for 60 consecutive trading days up to and including the last full trading day	price over/to the respective then net asset value per share attributable to owners of the company (Note 1)
		%	%	%	%	%	%
Skyworth Group Limited (751)	23 December 2022	39.3 (Note 2)	33.4 (Note 2)	29.3 (Note 2)	19.8 (Note 2)	12.1 (Note 2)	(35.4) (Note 2)
SciClone Pharmaceuticals (Holdings) Limited (6600)	6 January 2023	13.9	14.2	17.7	25.1	40.0	131.3
Shougang Fushan Resources Group Limited (639)	11 July 2023	17.6	17.4	20.7	9.6	(1.0)	(27.7)
Hong Kong Technology Venture Company Limited (1137)	22 May 2024	20.8	23.0	23.1	33.2	23.7	(10.8)
Zhihu Inc. (2390 & NYSE: ZH)	19 July 2024	7.2 (Note 3)	10.1 (Note 3)	9.7 (Note 3)	14.9 (Note 3)	3.2 (Note 3)	(43.6)
China Boqi Environmental (Holding) Co., Ltd. (2377)	23 October 2024	16.5	37.3	52.7	66.8	70.0	(65.0)
	Maximum:	39.3	37.3	52.7	66.8	70.0	131.3
	Minimum:	7.2	10.1	9.7	9.6	(1.0)	(65.0)
	Average:	19.2	22.6	25.5	28.2	24.6	(8.5)
	Median:	17.1	20.2	21.9	22.4	17.9	(31.6)
The Company	6 December 2024	15.1	16.7	19.8	19.5	29.1	(68.6)

Source: the Stock Exchange's website

Notes:

1. Based on the then latest net asset value per share attributable to shareholders of the subject companies as disclosed in the relevant offer documents.

2. The offer price of the relevant transaction was subsequently revised on 28 March 2023 and thus the last full trading day of 28 March 2023 was adopted in the calculation of the premium/(discount) of the revised offer price.
3. Calculated based on the share price as quoted on the Stock Exchange.

As depicted in the above table, the LTD Premium, 5 Days Premium, 10 Days Premium, 30 Days Premium and 60 Days Premium are within the relevant range of the Buy-back Cases; while the 2024Q3 NAV Discount is below the relevant range of the Buy-back Cases (i.e. the 2024Q3 NAV Discount of approximately 68.6% represents a deeper discount than the discounts represented by the offer price of the Buy-back Cases to the respective then NAV per share attributable to owners of the relevant company).

Taking into account that:

- (i) the Offer Price of HK\$4.03 is above the daily closing prices of the H Shares for 281 trading days out of total 282 trading days during the Shares Review Period;
- (ii) it is uncertain as to whether there would be sufficient liquidity in the H Shares for the H Shareholders to dispose of a significant number of H Shares in the open market without causing an adverse impact on the market price level of the H Shares given the thin Average Volume of H Shares during the Shares Review Period;
- (iii) the LTD Premium, 5 Days Premium, 10 Days Premium, 30 Days Premium and 60 Days Premium are within the relevant range of the Buy-back Cases, but the 2024Q3 NAV Discount is below the relevant range of the Buy-back Cases; and
- (iv) although the 2024Q3 NAV Discount is below relevant range of the Buy-back Cases (i.e. the 2024Q3 NAV Discount of approximately 68.6% represents a deeper discount than the discount represented by the offer price of Buy-back Cases to the respective then net asset value per share attributable to owners of the relevant company), the closing prices of H Shares have been traded at significant discount to the then prevailing NAV per Share during the Shares Review Period,

we consider the Offer Price to be fair and reasonable and we are of the view that the Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the H Shares.

6. Whitewash Waiver

As at the Latest Practicable Date, the CNBM Parent Concert Group held 3,797,269,981 Shares (including 183,964,000 H Shares and 3,613,305,981 Domestic Shares), representing approximately 45.02% of the issued Shares as at the Latest Practicable Date. Pursuant to Rule 32 of the Takeovers Code and Rule 6 of the Share Buy-backs Code, if as a result of a share buy-back, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code.

Depending on the level of acceptances received from the Accepting Shareholders pursuant to the Offer, taking into account all the Conditions are fulfilled or waived (where applicable), the aggregate interests of the CNBM Parent Concert Group may increase to a maximum level of approximately 50.01% upon completion of the Offer, thereby triggering an obligation under Rule 26 of the Takeovers Code for CNBM Parent to make a mandatory general offer for all the Shares not already owned by it and parties acting in concert with it. Accordingly, an application has been made to the Executive by CNBM Parent for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be conditional upon, among others, at least 75% of the votes cast by way of poll by the Independent Shareholders present and voting in person or by proxy in respect of the Whitewash Waiver.

The Offer is conditional upon the approval of the relevant resolutions at the EGM, the H Shareholders' Class Meeting and the Domestic Shareholders' Class Meeting, the Offer and the Whitewash Waiver being approved by the Independent Shareholders at the EGM and the Whitewash Waiver being granted by the Executive.

Depending on the level of acceptances received from the Accepting Shareholders pursuant to the Offer and in the event that the aggregate interests of the CNBM Parent Concert Group exceed 50% of the issued Shares upon completion of the Offer, the CNBM Parent Concert Group may increase its aggregate shareholding in the Company subsequent to completion of the Offer without triggering any obligation under Rule 26 of the Takeovers Code to make a mandatory general offer.

RECOMMENDATION

In respect of the Offer

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the Offer will return part of the Company's funds to the H Shareholders;
- (ii) the Offer will provide an opportunity for the H Shareholders either to tender H Shares to realise part of their investments in the Company at a premium to recent market prices, or to increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group;
- (iii) the Offer has the effect of enhancing net assets per Share attributable to equity shareholders of the Company upon completion of the Offer;
- (iv) although the H Shareholders can increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group with enhanced Shareholder value, the Offer Price of HK\$4.03 per H Share represents a premium over the closing price of the H Shares on the Last Trading Day and premiums over the average closing price of the H Shares for the 5, 10, 30, 60 consecutive trading days up to and including the Last Trading Day, indicating that the Offer provides an excellent opportunity for the H Shareholders to realize their investments in the Company;

- (v) the Offer Price of HK\$4.03 is above the daily closing prices of the H Shares for 281 trading days out of total 282 trading days during the Shares Review Period;
- (vi) it is uncertain as to whether there would be sufficient liquidity in the H Shares for the H Shareholders to dispose of a significant number of H Shares in the open market without causing an adverse impact on the market price level of the H Shares given the thin Average Volume of H Shares during the Shares Review Period;
- (vii) the LTD Premium, 5 Days Premium, 10 Days Premium, 30 Days Premium and 60 Days Premium are within the relevant range of the Buy-back Cases, but the 2024Q3 NAV Discount is below the relevant range of the Buy-back Cases; and
- (viii) although the 2024Q3 NAV Discount is below relevant range of the Buy-back Cases, the closing prices of H Shares have been traded at prices substantially lower than the then prevailing NAV per Share during the Shares Review Period,

we consider that the terms of the Offer (including the Offer Price) are fair and reasonable and in the interest of the Independent Shareholders. Accordingly, we recommend the Independent Board Committee to advise (i) the Independent Shareholders to vote in favour of the resolution with respect to the approval of the Offer; and (ii) the Qualifying Shareholders to accept the Offer.

In respect of the Whitewash Waiver

As aforementioned, if the Whitewash Waiver is not granted by the Executive, or if the resolutions to approve the Offer or the Whitewash Waiver are not passed by the Independent Shareholders, the Offer will not proceed and will immediately lapse.

In view of (i) the aforesaid reasons for and benefits of the Offer; and (ii) that the terms of the Offer are fair and reasonable, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for proceeding with the Offer, is (a) in the interests of the Company and the Shareholders (including the Independent Shareholders); and (b) is fair and reasonable for the purpose of proceeding with the Offer.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver.

As different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders who may require advice in relation to any aspect of the Offer Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.

* *For identification purpose only*