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Stock code: 601668

Abbreviation: CSCEC

No.: Interim 2022-065



中國建築股份有限公司

CHINA STATE CONSTRUCTION ENGRG.CORP.LTD

## **Announcement on the Acquisition of Equity Interests in China Construction Eco-Environmental Group Co., Ltd. and the Related Party Transaction**

The Board of Directors of the Company and each member of the Board of Directors guarantee that the contents of the public announcement contain no false or misleading statements or major omission, and they are jointly and severally liable for the truthfulness, accuracy and completeness of the said contents.

### **Important Notice**

- China State Construction Development Co., Ltd. (hereinafter referred to as "China State Construction Development"), a wholly-owned subsidiary of China State Construction Engineering Corporation Limited (hereinafter referred to as "CSCEC" or the "Company"), intends to enter into an equity transfer agreement with China State Construction Innovation Investment Co., Ltd. (hereinafter referred to as "China State Construction Innovation Investment"), a wholly-owned subsidiary of China State Construction Engineering Corporation (hereinafter referred to as "China State Construction"), the controlling shareholder of the Company, to acquire 100% equity interests in China Construction Eco-Environmental Group Co., Ltd. (hereinafter referred to as "China Construction Eco-Environment") held by China State Construction Innovation Investment in cash, at a consideration of RMB 1,706,284,700.
- This transaction constitutes a related party transaction, but does not constitute a major asset restructuring.
- As of the date of execution of this related party transaction, except for those that have been reviewed and approved by the General Meeting of Shareholders the Company, the related party transactions conducted between the Company and the Group in the past 12 months have not reached 5% of the latest audited net assets of the Company. Therefore, this related party transaction does not need to be submitted to the General Meeting of Shareholders of the Company for review.
- This related-party transaction is effected on fair and rational commercial terms, with equitable and reasonable pricing. The transactions are conducted in line with the principle of being objective, fair and equitable and in the interest of the Company, causing no harm to the interests of the shareholders, particularly the minority shareholders. The transactions will not bring negative impacts to the Company.

### **I. Overview of the Related-Party Transaction**

(I) Basic information of the transaction: China State Construction Development, a

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wholly-owned subsidiary of the Company, intends to sign an equity transfer agreement with China State Construction Innovation Investment, a wholly-owned subsidiary of China State Construction (the controlling shareholder of the Company), to acquire 100% equity interests in China Construction Eco-Environment held by China State Construction Innovation Investment in cash, at a consideration of RMB 1,706,284,700.

(II) Purpose and reasons of this transaction: this transaction will help expand the Company's scope of business, improve the Company's industrial chain, and enhance its market competitiveness in water environmental protection, which is in line with the Company's business development needs and shareholders' interests.

(III) The Company held the 26th meeting of the Third Board of Directors on October 28, 2022, at which the Proposal on the Acquisition of 100% Equity Interests in China Construction Eco-Environment by China State Construction Development in Cash was deliberated on and approved, and independent directors expressed their independent opinions. For details, please refer to the *Announcement on the Resolutions of the 26th Meeting of the Third Board of Directors of China State Construction Engineering Corporation Limited* (Announcement No.: Interim 2022-063) and the Independent Opinions of Independent Directors on the Acquisition of 100% Equity Interests in China Construction Eco-Environment by China State Construction Development in Cash and the Related Party Transaction.

(IV) This transaction constitutes a related party transaction, but does not constitute a major asset restructuring as stipulated in the *Administrative Measures for Major Asset Restructuring of Listed Companies*.

(V) As of the date of execution of this related party transaction, except for those that have been reviewed and approved by the General Meeting of Shareholders the Company, the related party transactions conducted between the Company and the Group in the past 12 months have not reached 5% of the latest audited net assets of the Company. Therefore, this related party transaction does not need to be submitted to the General Meeting of Shareholders of the Company for review.

## **II. About the Related Parties**

### **(I) About the relationship**

China State Construction Innovation Investment is a wholly-owned subsidiary of China State Construction, the controlling shareholder of the Company. According to Article 6.3.3 of the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, China State Construction Innovation Investment is a related legal person of the Company.

### **(II) About the related party**

Name: China State Construction Innovation Investment Co., Ltd. Unified social credit code: 91110000MA01ENE49Y

Registered capital: RMB 1.704 billion

Legal representative: Ma Hesheng.

Registered address: No.215, 2nd Floor, No.11 Sanlihe Road, Haidian District, Beijing

Type of the company: limited liability company (sole proprietorship of legal person)

Date of establishment: September 17th, 2018

Scope of Business: licensed items: real estate development and operation. (For items subject to the administrative approval by law, relevant approval or licenses from

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relevant authorities must be obtained prior to operation, and the specific business items shall be subject to the approval documents or licenses of relevant departments.) General items: investment activities carried out with self-owned funds; venture capital (unlisted enterprises only); asset management service invested with self-owned funds; corporate management consulting; corporate management; corporate headquarters management; technology service, development, consulting, exchange, transfer and promotion; service for holding companies; information system integration service; protection and management of natural eco-system; engineering management service; municipal facilities management; science and technology intermediary service; industrial engineering design service; information technology consulting service; social and economic consulting service; planning and design management; information consulting service (except for licensing information consulting service); property management; water conservancy-related consulting service; and consulting for tourism project planning. (Business activities shall be independently carried out according to law with business license, except for the items subject to approval according to law) (Business activities prohibited or restricted by the country or city's industrial policies shall not be carried out.)

Financial position: As of December 31, 2021, the total audited assets of China State Construction Innovation Investment were approximately RMB 16.996 billion, net assets (attributable to shareholders of the parent company) stood approximately at RMB 3.445 billion, main business revenue reached approximately RMB 8.961 billion, and net profit amounted to approximately RMB 476 million.

Credit standing: As of the disclosure date of this announcement, the credit standing of China State Construction Innovation Investment is good and there is no case where it is listed as a defaulter.

### **III. Overview of the Subject Matter of the Related Party Transaction**

#### **(I) About the subject matter**

##### **1. The name and category of the transaction**

This related party transaction is sales of assets, and the subject asset is 100% equity interests in China Construction Eco-Environment held by China State Construction Innovation Investment.

##### **2. About the ownership**

The property rights of China Construction Eco-Environment are clear, and there are no mortgaged or pledged subject assets, nor are there those under any other restrictions on transfer. It is not involved in litigation or arbitration, nor subject to judicial measures such as seizure or freezing. There are no other circumstances under which the transfer of ownership is hindered. There is no use of China Construction Eco-Environment funds for non-operational activities by China State Construction or its subordinate enterprises.

##### **3. Credit standing**

Credit standing: As of the disclosure date of this announcement, the credit standing of China State Construction Innovation Investment is good and there is no case where it is listed as a defaulter.

#### **(II) Main financial information of the subject company**

##### **1. Main business and financial indicators**

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Established in December 2013 with a registered capital of RMB 1.84 billion and 100% invested and owned by China State Construction Innovation Investment, China Construction Eco-Environment, a national high-tech enterprise, is a company under China State Construction that engages in investment, construction and operation in the field of ecological environment protection, including integrated management of watershed environment, black and odorous water treatment, rural sewage treatment, urban water supply and drainage, sponge city construction, soil remediation, reuse of construction waste, ecological restoration and other environmental protection business.

According to the standard unqualified audit report issued by BDO (special general partnership), the main financial indicators of China Construction Eco-Environment for the last year (2021) and the first quarter of this year (January-March 2022) are shown in the following table.

Unit: RMB 10,000

Indicator	2021	Jan.- Mar. 2022
Revenue	174,397.89	16,088.74
Net profit	12,713.46	-134.12
Total assets	363,118.52	362,727.21
Net assets	162,693.55	160,787.31

Notes: China Construction Eco-environment registered a negative profit in 2022Q1, because its existing investment projects were near to completion, while the old projects entered the stage of settlement, which slowed down the progress in construction and confirmation of ownership. At the same time, new operation projects were launched, while the contracts were not transformed into output value as new construction projects were not kicked off. This resulted in a less net profit in the first quarter that cannot cover management expenses. With the start of the project construction and operation, output value and net profit gradually increased, reversing the trend of losses. By the end of September 2022, the total profit of China Construction Eco-Environment has turned positive (unaudited).

## 2. Other matters

In the past 12 months (from September 2021 to the present), China Construction Eco-Environment has not carried out any other asset appraisal aside from the one conducted for this transaction. In the past 12 months, China Construction Eco-Environment has only one capital increase: in September 2021: China State Construction Innovation Investment increased its capital in China Construction Eco-Environment by RMB 340 million in cash, which increased the registered capital of the subject company from RMB 1.5 billion to RMB 1.84 billion.

## IV. Pricing of the Subject Matter of the Transaction

### 1. Pricing and Basis

(1) Audit and appraisal results: according to the financial audit and the asset appraisal report issued by BDO and DeveChina International Appraisals, with March 31, 2022 as the base date, the audited net assets of China Construction Eco-Environment were RMB 1,607,873,100; and the net assets appraised using present earning value method were 1,706,284,700, with an appreciation of RMB 98,411,600.

(2) The selection of important appraisal parameters and their reasonableness: first, the revenue is forecasted according to the Company's current orders, which is relatively highly achievable; and the costs and expenses are forecasted according to the

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Company's annual project costs and the analysis of characteristics of the industry. Thus, the forecast of the overall net cash flow is reasonable, in line with the actual situation of the Company. Second, the discount rate is calculated using the weighted average cost of capital (WACC), and all parameters used in the calculation of the discount rate are from those of listed companies or public data, and are selected reasonably.

## **2. Analysis of the reasonableness of the difference between the appraised value and the book value**

The book value of China Construction Eco-Environment shows only the value of its assets on the base date, mainly reflecting the historical costs of asset acquisition; and the present earning value method is applied based on the future profitability of the Company, which reflects the comprehensive profitability of each asset of the Company. The appraisal results of China Construction Eco-Environment obtained through the present earning value method comprehensively reflect its capabilities in management, growth and operation, and fully demonstrate its value. Therefore, the difference between the appraised value and the book value is reasonable.

According to the Measures for the Supervision and Administration of the Transaction of State-owned Assets of Enterprises (Order No.32 of SASAC and Ministry of Finance), the above assets appraisal results have been filed by China Construction Group for record.

## **V. Main Content and Fulfilment of the Related Party Transaction Agreement**

China State Construction Development intends to enter into an Equity Transfer Agreement with China State Construction Innovation Investment for the aforementioned related party transaction, the main content of which is as follows:

1. Payment deadline and payment method: one-time cash payment within 5 working days from the effective date of the agreement.
2. Completion of shareholding rights transfer: Within 90 days from the effective date of the agreement, the registration and completion of the transfer of equity of the subject company shall be finished.
3. Arrangement during the transition period: the transition period refers to the period from the base date of asset appraisal to the completion date. During the transition period, the changes in the value of net assets of the subject company shall be enjoyed/borne by the transferee, China State Construction Development; the transferor, China State Construction Innovation Investment, shall exercise its shareholder's rights in accordance with laws and maintain the stability of the Company's articles of association, remuneration and benefits system, and directors, supervisors and senior management.
4. Entry-into-force conditions and date: the agreement enters into force after it is signed and sealed by both parties.
5. Taxes and fees: In connection with this transfer, each party shall bear its own taxes, commissions and other related expenses.
6. Liability for breach of contract: After the Equity Transfer Agreement is signed, any party who fails to perform its obligations as agreed thereunder or breaches the representations and warranties or commitments made by it shall be deemed to be in breach of contract. The defaulting party shall compensate the non-defaulting parties for the losses caused by its default.

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## **VI. Impacts of the Related-Party Transaction on the Company**

1. As a national high-tech enterprise, China Construction Eco-Environment is the largest enterprise in water business under China State Construction. The Company's market competitiveness in water environmental protection business will be improved after the transaction is completed.
2. This related party transaction is in line with the principle of being open, fair and equitable. This transaction will help expand the Company's scope of business, and improve the Company's industrial chain, thus in line with the Company's business development needs and shareholders' interests.
3. The transaction does not cause any change in the management, personnel, or land lease of China Construction Eco-Environment; nor give rise to new competition in the same industry and goodwill.
4. After the completion of this equity transfer, China Construction Eco-Environment will become a wholly-owned subsidiary of the Company, and China Construction Eco-Environment and its holding subsidiaries will be included in the Company's consolidated statements.

## **VII. Deliberation Procedure for the Related-Party Transaction**

### **1. Approval procedure**

This related-party transaction needs to be brought to the Company's Board of Directors for deliberation and does not constitute a matter for deliberation by its General Meeting. The 26th meeting of the Third Board of Directors has deliberated on and approved the Proposal on the Acquisition of 100% Equity Interests in China Construction Eco-Environment by China State Construction Development in Cash.

According to regulatory requirements and the Company's *Articles of Association*, the related directors shall withdraw from the Meeting of the Board of Directors when deliberating on matters concerning the related-party transaction. The Company's Board of Directors has six members, all of whom cast their vote at the Meeting. As related directors, Mr. Zheng Xuexuan and Mr. Zhang Zhaoxiang withdrew from the voting process, while the other four Independent Directors with voting right unanimously voted in favour of and adopted this related-party transaction. The number of directors participating in the voting constituted a quorum, and the Meeting and voting were deemed to be legally and validly.

The 15th meeting of the Third Board of Supervisors has deliberated on and approved the Proposal on the Acquisition of 100% Equity Interests in China Construction Eco-Environment by China State Construction Development in Cash, and the five supervisors of the Company unanimously voted in favour of the proposal.

### **2. Opinions of Independent Directors**

They issued the following independent opinions:

1. China State Construction Development intends to acquire 100% equity interests in China Construction Eco-Environment held by China State Construction Innovation Investment in cash by signing an agreement. We have expressed prior approval of this related party transaction before this matter is submitted to the Board of Directors for deliberation.
2. China Construction Eco-Environment, a subsidiary of China State Construction, has its construction business mainly carried out by the engineering bureaus and

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professional companies of the Company. The acquisition of equity interests in China Construction Eco-Environment will reduce the Company's related party transactions and improve compliance.

3. The acquisition of equity interests in China Construction Eco-Environment will promote the development of the Company's eco-environmental business, and help China Construction Eco-Environment develop better and stronger with the Company's good resources.

4. This related party transaction was conducted in line with the principle of being objective, fair and just and the Company's needs for business development, causing no harm to the interests of the shareholders, particularly the minority shareholders. The transactions will not bring negative impacts to the Company. We hereby approve the acquisition of 100% equity interests in China Construction Eco-Environment by China State Construction Development in cash and the related party transaction.

5. According to the *Articles of Association*, this related party transaction does not need to be submitted to the General Meeting of Shareholders for deliberation. The related directors have withdrawn from the voting, and the voting procedure was in compliance with relevant laws, regulations and the provisions of the *Articles of Association*.

#### **VIII. List of Documents for Future Review**

1. The Resolutions of the 26th Meeting of the Third Board of Directors
2. Resolutions of the 15th Meeting of the Third Board of Supervisors
3. Independent opinions of independent directors on the acquisition of 100% equity interests in China Construction Eco-Environment by China State Construction Development in cash.

The above is hereby announced.

The Board of Directors of China State Construction Engineering Corporation Limited  
October 28, 2022