THIS CIRCULAR IS IMPORTANT AND REQUIRES IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed security dealer or other registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China National Building Material Company Limited*, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the licensed security dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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)

(1) CONNECTED TRANSACTION IN RELATION TO THE MERGER BY ABSORPTION BY NINGXIA BUILDING MATERIALS OF CNBM TECHNOLOGY AND (2) NOTICE OF THE EGM

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Donvex 富域資本

Donvex Capital Limited
富域資本有限公司

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 1 to 57 of this circular. A letter from the Independent Board Committee is set out on pages 58 to 59 of this circular. A letter from Donvex Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of the Company, is set out on pages 60 to 112 of this circular.

The notice convening the EGM to be held at Tower 2, Guohai Plaza, No. 17 Fuxing Road, Haidian District, Beijing, the PRC at 2:00 p.m. on Tuesday, 15 August 2023, is contained in this circular. Shareholders are advised to read the notice and to complete and return the enclosed form of proxy for use at the EGM in accordance with the instructions printed thereon.

Whether or not you are able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the EGM (i.e. not later than 2:00 p.m. on Monday, 14 August 2023) or any adjournment thereof (as the case may be).

Completion and return of the form or proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

References to time and dates in this circular are to Hong Kong time and dates.

* *For identification only*

28 July 2023

CONTENTS

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

"Applicable Period"	each of the accounting years during the Compensation Period
"Appraised Value"	the appraised value of CNBM Technology
"associate"	has the meaning given to it in the Listing Rules
"Beijing Yuanyi"	Beijing Yuanyi Technology Service Co., Ltd.* (北京元億科技服務有限公司), a subsidiary of CNBM Technology
"Board"	the board of Directors of the Company
"Cash Option"	the cash option granted to the Eligible Shareholders for the Cash Option, as described in the section titled "Cash Option" in the "Letter from the Board" of this circular
"Cash Option Provider(s)"	the Company and/or CBMJI, which will pay the cash consideration to a shareholder of CNBM Technology who requests to exercise the Cash Option and acquire the corresponding shares in CNBM Technology, as described in the section titled "Cash Option" in the "Letter from the Board" of this circular
"Cement Assets Restructuring"	the disposal by Ningxia Building Materials of the Target Cement Assets in consideration for Tianshan Cement's capital contribution to Ningxia Saima in form of cash, the principal terms of which have been set out in the Company's announcement dated 27 June 2023, as described in the section titled "Cement Assets Restructuring" in the "Letter from the Board" of this circular
"CBMJI"	CBMJI Co., Ltd.* (中建材聯合投資有限公司), a limited liability company established under the laws of the PRC and a wholly-owned subsidiary of the Parent
"CNBM Technology"	CNBM Technology Corporation Limited* (中建材信息技術股份有限公司), an indirect subsidiary of the Parent whose A-shares are listed and traded on The National Equities Exchange and Quotations (stock code: 834082)

"CNBM Technology (Hong Kong)"	CNBM Technology (Hong Kong) Limited* (中建材信息技術(香港)有限公司), a wholly-owned subsidiary of CNBM Technology
"CNBM Technology Subsidiary"	each of the subsidiaries of CNBM Technology
"CNBM Xinyun Smart Technology"	CNBM Xinyun Smart Technology Limited* (中建材信雲智聯科技有限公司), a wholly-owned subsidiary of CNBM Technology
"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
"Compensation Agreement"	the profit undertaking and compensation agreement dated 27 June 2023 entered into among Ningxia Building Materials and the Compensation Obligors
"Compensation Obligors"	CNBM Elink Co., Ltd.* (中建材智慧物聯有限公司), China National Building Material Import and Export Co., Ltd.* (中建材集團進出口有限公司), Beijing Zhongchengzhida Chuangye Investment Center (Limited Partnership)* (北京眾誠志達創業投資中心(有限合夥)), CBMJI and CNBM Investment Company Limited* (中建材投資有限公司), who are shareholders of CNBM Technology
"Compensation Period"	three accounting years commencing from the year when the Merger by Absorption is completed, being 2023, 2024 and 2025 if the Merger by Absorption is completed in 2023; 2024, 2025 and 2026 if the Merger by Absorption is completed in 2024
"Compensation Shares"	the Consideration Shares (together with any stock, proceeds and distributions derived therefrom) received by the Compensation Obligors pursuant to the Merger by Absorption and to be compensated to Ningxia Building Materials in accordance with the Compensation Agreement
"Completion"	the completion of the Merger by Absorption

"Completion Date"	the date as agreed by CNBM Technology and Ningxia Building Materials, but no later than the date when the Consideration Shares are paid to the receivers of the exchanged shares and registered by the securities registration and clearing institution to the names of the receivers of the exchanged shares; Ningxia Building Materials will inherit and undertake all the assets, liabilities, business, contracts, licenses, personnel and all other rights and obligations of CNBM Technology on that date
"connected person"	has the meaning given to it in the Listing Rules
"Consideration Shares"	common shares in Ningxia Building Materials denominated in RMB and listed on the Shanghai Stock Exchange, with a par value of RMB1.00 each, as described in the section titled "Consideration" in the "Letter from the Board" of this circular
"Consideration Value"	the aggregate amount of consideration for the Merger by Absorption, as described in the section titled "Consideration" in the "Letter from the Board" of this circular
"CSRC"	the China Securities Regulatory Commission
"Deemed Disposal"	the reduction of the Company's equity interests in Ningxia Building Materials as a result of the issue and allotment of Consideration Shares by Ningxia Building Materials to shareholders of CNBM Technology in the Merger by Absorption
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held at Tower 2, Guohai Plaza, No. 17 Fuxing Road, Haidian District, Beijing, the PRC on Tuesday, 15 August 2023 at 2:00 p.m.

"Eligible Shareholders for the Cash Option"	all shareholders of CNBM Technology other than CNBM Elink Co., Ltd.* (中建材智慧物聯有限公司), China National Building Material Import and Export Co., Ltd.* (中建材集團進出口有限公司), CBMJI, CNBM Investment Company Limited* (中建材投資有限公司) and Beijing Zhongchengzhida Chuangye Investment Center (Limited Partnership)* (北京眾誠志達創業投資中心(有限合夥)) as described in the section titled "Cash Option" in the "Letter from the Board" of this circular
"Eligible Shareholders for the Put Option"	all shareholders of Ningxia Building Materials other than the Company, as described in the section titled "Put Option" in the "Letter from the Board" of this circular
"Exchange Ratio"	the share exchange ratio at which CNBM Technology shares will be exchanged for Ningxia Building Materials shares, as described in the section titled "Consideration" in the "Letter from the Board" of this circular
"First Supplemental Agreement"	the first supplemental agreement to the Indicative Merger Agreement dated 28 December 2022 between Ningxia Building Materials and CNBM Technology in relation to the amendment to certain terms of the Merger by Absorption (including, among other things, the Pricing Reference Date, the Issue Price of the Consideration Shares and the exercise price of the Put Option)
"Group"	the Company and its subsidiaries from time to time
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the committee of independent non-executive Directors, consisting of Mr. Sun Yanjun, Mr. Liu Jianwen, Mr. Zhou Fangsheng, Mr. Li Jun and Ms. Xia Xue, which has been formed to advise the Independent Shareholders in relation to Merger by Absorption
"Independent Financial Adviser"	Donvex Capital Limited, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Merger by Absorption
"Independent Shareholders"	the shareholders of the Company other than the Parent and its associates

"Indicative Merger Agreement"	an indicative merger by absorption agreement dated 28 April 2022 between Ningxia Building Materials and CNBM Technology, in relation to the Merger by Absorption
"Issue Amount"	the number of Consideration Shares to be issued by Ningxia Building Materials, as described in the section titled "Consideration" in the "Letter from the Board" of this circular
"Issue Price"	the issue price of the Consideration Shares, as described in the section titled "Consideration" in the "Letter from the Board" of this circular
"Latest Practicable Date"	24 July 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Merger Agreements"	the Indicative Merger Agreement, the First Supplemental Agreement and the Second Supplemental Agreement
"Merger by Absorption"	the proposed merger by absorption by Ningxia Building Materials of CNBM Technology, pursuant to the Indicative Merger Agreement, the First Supplemental Agreement and the Second Supplemental Agreement
"Ningxia Building Materials"	Ningxia Building Materials Group Co., Limited* (寧夏建材集團股份有限公司), a subsidiary of the Company whose A-shares are listed and traded on the Shanghai Stock Exchange (stock code: 600449)
"Ningxia Saima"	Ningxia Saima Cement Co., Ltd.* (寧夏賽馬水泥有限公司), a wholly-owned subsidiary of Ningxia Building Materials
"Parent"	China National Building Material Group Co., Ltd.* (中國建材集團有限公司), a state-owned limited liability company incorporated under the laws of the PRC and a controlling shareholder of the Company

"PRC"	the People's Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this circular
"Pricing Reference Date"	28 December 2022 as stated in the section titled "Consideration" in the "Letter from the Board" of this circular
"Proaxia Information Technology"	Proaxia Information Technology (Beijing) Limited* (博瑞夏信息技術(北京)有限公司), a subsidiary of CNBM Technology
"Profit Undertaking Assets"	all assets of CNBM Technology which have been taken into account in the valuation of CNBM Technology in connection with the Merger by Absorption and valuated by the income approach
"Proposed Placing"	the proposed placing of additional new shares by Ningxia Building Materials if and after the Cement Assets Restructuring and the Merger by Absorption are completed, as described in the section titled "Proposed Placing" in the "Letter from the Board" of this circular
"Proposed Transactions"	the Merger by Absorption, the Cement Assets Restructuring and the Proposed Placing, as described in the section titled "Proposed Placing" in the "Letter from the Board" of this circular
"Put Option"	the put option granted to Eligible Shareholders for the Put Option, as described in the section titled "Put Option" in the "Letter from the Board" of this circular
"Put Option Provider(s)"	the Company and/or CBMJI, which will pay cash consideration to a shareholder of Ningxia Building Materials who requests to exercise the Put Option and acquire the corresponding shares in Ningxia Building Materials, as described in the section titled "Put Option" in the "Letter from the Board" of this circular
"RMB"	Renminbi, the lawful currency of the PRC

"Second Supplemental Agreement"	the second supplemental agreement to the Indicative Merger Agreement dated 27 June 2023 (as amended by the First Supplemental Agreement dated 28 December 2022) between Ningxia Building Materials and CNBM Technology to agree on certain terms of the Merger by Absorption (including, among other things, the Issue Amount, Exchange Ratio, adjustment mechanism of the exercise price of the Cash Option, Cash Option Provider(s), Put Option Provider(s)) after completion of the relevant audit and valuation work
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as revised, supplemented or otherwise modified from time to time)
"Sinoma Group"	China National Materials Group Corporation Ltd.* (中國中材集團有限公司), a wholly-owned subsidiary of the Parent
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"Tianshan Cement"	Xinjiang Tianshan Cement Co., Ltd.* (新疆天山水泥股份有限公司), a subsidiary of the Company and whose A-shares are listed and traded on the Shenzhen Stock Exchange (stock code: 000877)
"Valuation Reference Date"	31 July 2022
"Valuer"	Beijing Zhuoxindahua Appraisal Company Limited* (北京卓信大華資產評估有限公司)
"%"	per cent

* *For identification only*

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)

Executive Directors:
Mr. Zhou Yuxian *(Chairman)*
Mr. Wei Rushan
Mr. Liu Yan
Mr. Xiao Jiaxiang
Mr. Wang Bing

Non-executive Directors:
Mr. Li Xinhua
Mr. Chang Zhangli
Mr. Wang Yumeng
Mr. Shen Yungang
Ms. Fan Xiaoyan

Independent Non-executive Directors:
Mr. Sun Yanjun
Mr. Liu Jianwen
Mr. Zhou Fangsheng
Mr. Li Jun
Ms. Xia Xue

Registered Office:
Tower 2 (Building B)
Guohai Plaza
No. 17 Fuxing Road
Haidian District
Beijing
The PRC

Place of business in Hong Kong:
5/F, Manulife Place
348 Kwun Tong Road, Kowloon
Hong Kong
The PRC

To the shareholders of the Company

Dear Sirs,

(1) CONNECTED TRANSACTION IN RELATION TO THE MERGER BY ABSORPTION BY NINGXIA BUILDING MATERIALS OF CNBM TECHNOLOGY
AND
(2) NOTICE OF THE EGM

* *For identification only*

1. INTRODUCTION

References are made to the announcements of the Company dated 14 April 2022, 15 April 2022, 28 April 2022, 28 December 2022 and 27 June 2023 in respect of, among other things, the proposed merger by absorption by Ningxia Building Materials (an A-share listed subsidiary of the Company) of CNBM Technology (an indirect subsidiary of the Company's parent company) through share exchange with issuance of A-shares by Ningxia Building Materials to all the shareholders of CNBM Technology.

The purpose of this circular is to provide you with details of the resolution proposed to be considered and approved by you at the EGM and provide relevant information to enable you to make an informed decision on voting in respect of such resolution.

2. MERGER BY ABSORPTION

On 28 April 2022, Ningxia Building Materials entered into the Indicative Merger Agreement with CNBM Technology in relation to the Merger by Absorption.

On 28 December 2022, Ningxia Building Materials entered into the First Supplemental Agreement with CNBM Technology in relation to the amendment to certain terms of the Merger by Absorption.

On 27 June 2023, Ningxia Building Materials entered into the Second Supplemental Agreement to agree on certain terms of the Merger by Absorption.

Principal terms of the merger agreements

Date

Indicative Merger Agreement: 28 April 2022

First Supplemental Agreement: 28 December 2022

Second Supplemental Agreement: 27 June 2023

Parties

(1) Ningxia Building Materials, as the merging entity; and

(2) CNBM Technology, as the merged entity.

Merger by Absorption

After the completion of the Merger by Absorption, Ningxia Building Materials will become the subsisting entity and will inherit and undertake all the assets, liabilities, business, contracts, licenses, personnel and all other rights and obligations of CNBM Technology. The legal capacity of CNBM Technology will eventually be deregistered.

Consideration

The aggregate amount of consideration for the Merger by Absorption (the "**Consideration Value**") is RMB2,294.3080 million, which is determined with reference to the appraised value of CNBM Technology (being approximately RMB2,333.1416 million) in a valuation report issued by the Valuer which has been filed with the competent authority of state-owned assets supervision and administration and the amount of cash dividends for profit distribution of RMB38.83 million, with the ex dividend date being 25 May 2023.

The consideration for the Merger by Absorption is to be satisfied by A-shares to be issued by Ningxia Building Materials (the "**Consideration Shares**") at the Issue Amount (as defined below) in exchange at the Exchange Ratio (as defined below) for shares in CNBM Technology held by all its shareholders. The details are as follows:

(1)	Nature and par value of the Consideration Shares:	Common shares in Ningxia Building Materials denominated in RMB and listed on the Shanghai Stock Exchange, with a par value of RMB1.00 each.

(2)	Issue price of the Consideration Shares (the "**Issue Price**"):	RMB13.21 per share, as determined in accordance with RMB13.60 being the issue price as stated in the First Supplemental Agreement (which has been determined in accordance with the principle that the Issue Price will not be lower than the average trading price of A shares in Ningxia Building Materials in the 20 trading days prior to 28 December 2022 (the "**Pricing Reference Date**") and the audited net assets per share attributable to the parent company as holders of common shares in Ningxia Building Materials at the end of 2021, and considering the cash dividend of RMB5.4 (tax included) distributed to all shareholders of Ningxia Building Materials for every 10 shares as approved by the 2021 annual general meeting of Ningxia Building Materials, with the ex-dividend date being 30 May 2022, and as adjusted taking into consideration the cash dividend of RMB3.9 (tax included) distributed to all shareholders of Ningxia Building Materials for every 10 shares to all shareholders of Ningxia Building Materials as approved by its 2022 annual general meeting held on 13 April 2023.
(3)	Adjustment mechanism of the Issue Price:	If there is any ex-right or ex-dividend event, such as distribution of dividend, bonus issue, and transfer to share capital from capital reserve by Ningxia Building Materials during the period commencing on the Pricing Reference Date and ending on the date of registration of equity interests at the implementation of Merger by Absorption, the Issue Price will be adjusted accordingly.
(4)	Exchange ratio (the "**Exchange Ratio**"):	1:1.1628 (i.e. 1 share in CNBM Technology in exchange for 1.1628 shares in Ningxia Building Materials). The Exchange Ratio is calculated according to the following formula: Exchange Ratio = Consideration Value ÷ total number of issued shares in CNBM Technology ÷ Issue Price (the calculation result is to be rounded to 4 decimal places).

(5)	Number of Consideration Shares to be issued (the "**Issue Amount**"):	173,675,807, as determined in accordance with the following formula: Issue Amount = Consideration Value ÷ Issue Price, which is subject to the approval by the shareholders of Ningxia Building Materials in a general meeting, review by the Shanghai Stock Exchange and approval of registration by the CSRC.
(6)	Treatment of shares with restrictive rights:	The shares in CNBM Technology with restrictive rights will all be exchanged to Consideration Shares at the time of share exchange, and the existing restrictive rights attached to the shares in CNBM Technology will continue to be effective and attached to the corresponding Consideration Shares as exchanged.

Cash Option

In order to protect the interests of the shareholders of CNBM Technology, CNBM Technology and Ningxia Building Materials have agreed to grant a cash option (the "**Cash Option**") to Eligible Shareholders for the Cash Option (as defined below), who are entitled to request the Cash Option Provider(s) (as defined below) to acquire shares in CNBM Technology held by the Eligible Shareholders for the Cash Option for cash consideration. The details are as follows:

(1)	Eligible shareholders for the Cash Option (the "**Eligible Shareholders for the Cash Option**"):	All shareholders of CNBM Technology other than CNBM Elink Co., Ltd.* (中建材智慧物聯有限公司), China National Building Material Import and Export Co., Ltd.* (中建材集團進出口有限公司), CBMJI, CNBM Investment Company Limited* (中建材投資有限公司) and Beijing Zhongchengzhida Chuangye Investment Center (Limited Partnership)* (北京眾誠志達創業投資中心(有限合夥)).
(2)	Provider(s) of the Cash Option (the "**Cash Option Provider(s)**"):	The Company and/or CBMJI, which will negotiate and arrange the arrangements of providing the Cash Option, provided that CBMJI shall not by virtue of providing the Cash Option obtain control in Ningxia Building Materials or result in a change of the Company's status as the controlling shareholder of Ningxia Building Materials.
(3)	Exercise price of the Cash Option:	RMB15.36 per share, which is the amount of consideration per share in CNBM Technology for the Merger by Absorption.

(4)	Exercise of the Cash Option:	The Eligible Shareholders for the Cash Option are entitled to receive cash consideration from and transfer the corresponding shares to the Cash Option Provider(s) for each share in CNBM Technology that has been effectively declared within a specified period. The shares in CNBM Technology acquired by the Cash Option Provider(s) through the Cash Option will be fully converted at the Exchange Ratio into A-shares issued by Ningxia Building Materials during the Merger by Absorption. If the Merger by Absorption fails to obtain any of the required shareholders or regulatory approvals or filings, and the Merger by Absorption cannot be implemented in the end, the shareholders of CNBM Technology will not be allowed to exercise the Cash Option.
(5)	Settlement and completion of the shares in the exercise of the Cash Option:	After the expiry of the declaration period for exercising the Cash Option, Ningxia Building Materials and CNBM Technology will negotiate with the Cash Option Providers to determine the distribution ratio and quantity of such shares among the Cash Option Providers (if not a single entity) and process the procedures for share transfer and settlement of cash consideration.
(6)	Adjustment mechanism of the exercise price of the Cash Option:	If there is any ex-right or ex-dividend event, such as distribution of dividend, bonus issue, and transfer to share capital from capital reserve by CNBM Technology during the period commencing on the date of announcement of the resolutions of Ningxia Building Materials' board meeting in respect of the Merger by Absorption and ending on the date on which the Cash Option is exercised, the exercise price of the Cash Option will be adjusted accordingly.

Beijing Zhongchengzhida Chuangye Investment Center (Limited Partnership)* (北京眾誠志達創業投資中心(有限合夥)), a shareholder of CNBM Technology, has issued a written undertaking that it will exchange all its shares in CNBM Technology to shares in Ningxia Building Materials and will not exercise the Cash Option. It will not transfer the shares in Ningxia Building Materials that it acquires from the Merger by Absorption within 36 months of the issuance of those shares.

Put Option

In order to protect the interests of shareholders of Ningxia Building Materials, CNBM Technology and Ningxia Building Materials have agreed to grant a put option (the "**Put Option**") to Eligible Shareholders for the Put Option (as defined below), who are entitled to request the Put Option Provider(s) (as defined below) to acquire shares in Ningxia Building Materials held by the Eligible Shareholders for the Put Option. Details are as below:

(1)	Eligible shareholders for the Put Option (the "**Eligible Shareholders for the Put Option**"):	All shareholders of Ningxia Building Materials other than the Company.
(2)	Provider(s) of the Put Option (the "**Put Option Provider(s)**"):	The Company and/or CBMJI, which will negotiate and arrange the arrangements of providing the Put Option, provided that CBMJI shall not by virtue of providing the Put Option obtain control in Ningxia Building Materials or result in a change of the Company's status as the controlling shareholder of Ningxia Building Materials.
(3)	Exercise price of the Put Option:	RMB12.20, as determined in accordance with the principle that if there is any ex-right or ex-dividend event, such as distribution of dividend, bonus issue, and transfer to share capital from capital reserve by Ningxia Building Materials during the period commencing on the Pricing Reference Date and ending on the date of exercise of the Put Option, the exercise price of the Put Option will be adjusted, and as adjusted taking into consideration that Ningxia Building Materials has distributed a cash dividend of RMB3.9 (tax included) for every 10 shares to all shareholders as approved by its 2022 annual general meeting held on 13 April 2023.

(4) Exercise of the Put Option: The Eligible Shareholders for the Put Option are entitled to receive cash consideration from and transfer the corresponding shares to the Put Option Provider(s) for each share in Ningxia Building Materials that has been effectively declared.

If the Merger by Absorption fails to obtain any of the required shareholder or regulatory approvals, and the Merger by Absorption cannot be implemented in the end, the shareholders of Ningxia Building Materials will not be allowed to exercise the Put Option.

(5) Settlement and completion of the shares in the exercise of the Put Option: After the expiry of the declaration period for exercising the Put Option, Ningxia Building Materials will negotiate with the Put Option Providers to determine the distribution ratio and quantity of such shares among the Put Option Providers (if not a single entity) and process the procedures for share transfer and settlement of cash consideration.

(6) Adjustment mechanism of the exercise price of the Put Option: If there is any ex-right or ex-dividend event, such as distribution of dividend, bonus issue, and transfer to share capital from capital reserve, by Ningxia Building Materials during the period commencing on the Pricing Reference Date and ending on the exercise date of the Put Option, the above exercise price of the Put Option will be adjusted accordingly.

The exercise price of the Put Option may be adjusted once, whether upwards or downwards, by Ningxia Building Materials' board during the period from the date of announcement of the resolutions of Ningxia Building Materials' shareholders' meeting in respect of the Merger by Absorption until the approval of the Merger by Absorption by CSRC, with reference to, among others, the price of shares in Ningxia Building Materials and the performance of market indices.

Basis of the consideration

The Consideration Value (i.e. RMB2,294.3080 million) was determined based on the Appraised Value (i.e. RMB2,333.1416 million) as at the Valuation Reference Date with reference to the valuation report issued by the Valuer and the amount of cash dividends for profit distribution of RMB38.83 million as at 25 May 2023 being the ex dividend date. The Appraised Value is set out in the valuation report for the Merger by Absorption. The details are as follows:

(I) **Valuation methods:** The income-based approach has been adopted by the Valuer for the valuation report regarding CNBM Technology because the Valuer considered that it could reflect the value of CNBM Technology more properly compared to the asset-based approach (as the asset-based approach only evaluates individual tangible assets and certain quantifiable intangible assets, but fails to fully reflect the contribution of the combination of each individual tangible asset to CNBM Technology and measure the integration effect generated by the matching and organic combination of the individual assets). The Appraised Value was determined based on the income-based approach, due to its ability to take into account the value of the intangible assets which is difficult to quantify, as well as the profitability of various assets of CNBM Technology. Please refer to the section headed "Profit Forecast" as set out below in the Letter from The Board as set out in this circular for more details.

(II) **Assumptions, parameters and methodology:** The valuation of CNBM Technology with income-based approach has adopted a customary set of assumptions and parameters for income-based approach. Please refer to the section headed "Profit Forecast" as set out below in the Letter from The Board as set out in this circular for more details.

Conditions of Effectiveness of the Merger Agreements

The Merger Agreements will take effect upon the date of fulfilment of all of the following conditions:

(1) signing and stamping by both parties to the Merger Agreements;

(2) filing of the asset valuation reports in respect of the Proposed Transactions with the competent authority of state-owned assets supervision and administration;

(3) approval of the Proposed Transactions by the competent authority of state-owned assets supervision and administration;

(4) approval of the Proposed Transactions by the competent decision-making bodies of Ningxia Building Materials;

(5) approval of the Merger by Absorption by CNBM Technology's competent decision-making bodies;

(6) approval of the Cement Assets Restructuring by Tianshan Cement's competent decision-making bodies;

(7) approval of the Proposed Transactions by the competent decision-making bodies of the Company;

(8) the signing and the taking effect of the indicative asset restructuring agreement dated 28 April 2022 entered into between Ningxia Building Materials and Tianshan Cement in connection with the Cement Assets Restructuring;

(9) waiver in respect of the Company's Parent and its concert parties' obligation to make an offer to acquire shares as a result of the Proposed Transactions being approved at Ningxia Building Materials' shareholders' meeting;

(10) approval of the termination of CNBM Technology's listing on The National Equities Exchange and Quotations by CNBM Technology's shareholders' meeting, filing to National Equities Exchange and Quotations Co., Ltd. according to regulations, and performance of the relevant procedures;

(11) approval or "no-further-review" decision in connection with the undertaking concentration assessment conducted by the Anti-Monopoly Bureau of the State Administration for Market Regulation with respect to the Proposed Transactions (if needed);

(12) approval of the Proposed Transactions by CSRC; and

(13) other necessary prior sanction, approval or consent as required by applicable law, regulations and regulatory authorities in respect of the Proposed Transactions.

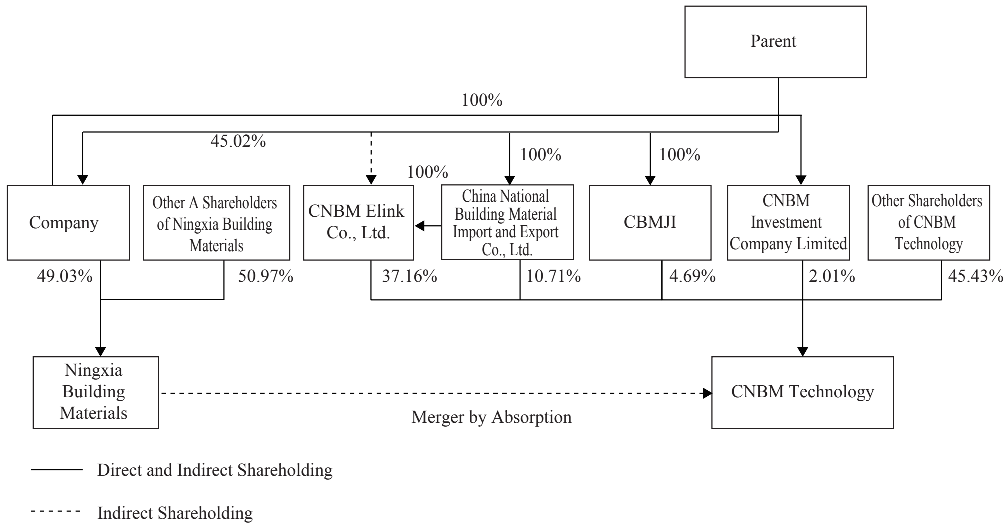
As at the Latest Practicable Date, Conditions (1), (2) and (11) have been satisfied, and the board approval in Conditions (4), (5), (6) and (7) have been obtained.

Completion

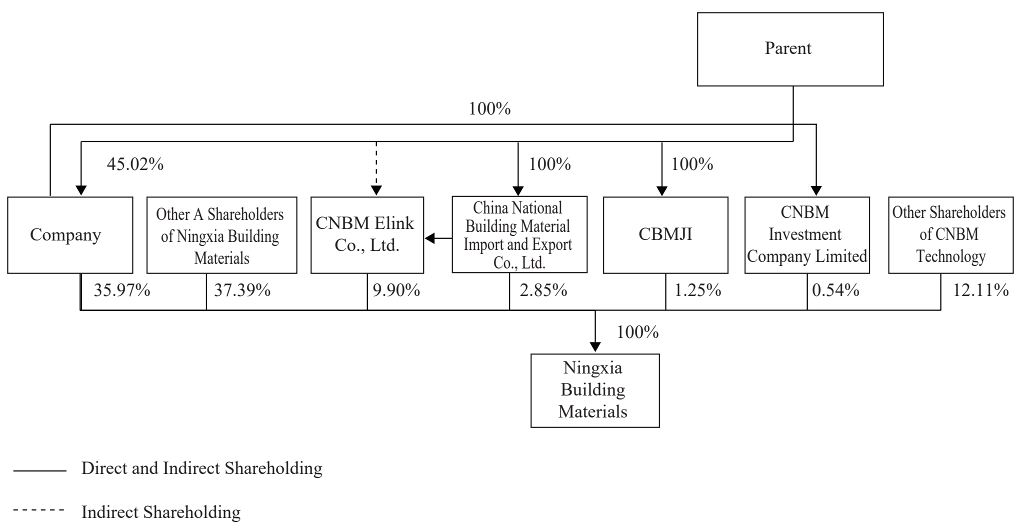
After the Completion Date, the legal capacity of CNBM Technology will be deregistered. Ningxia Building Materials will inherit and undertake all the assets, liabilities, business, contracts, licenses, personnel and all other rights and obligations of CNBM Technology.

Shareholding Structure

1. Shareholding structure as at the Latest Practicable Date



2. Shareholding structure immediately after Completion



Note:

The above shareholding structure is based on the assumptions that (1) between the Latest Practicable Date and the Completion Date, the shareholding by the Company of Ningxia Building Materials remains unchanged; and (2) the Put Option and the Cash Option are both not exercised by the Eligible Shareholders for the Put Option and the Eligible Shareholders for the Cash Option.

Upon the Completion, since the number of shares in Ningxia Building Materials held by the Company remains unchanged, the Merger by Absorption will cause a dilution effect to the shareholding in Ningxia Building Materials of the Company. The shareholding percentage of the Company in Ningxia Building Materials will decrease from 49.03% to 35.97%.

Profit or Loss Attribution and Attribution Arrangement of Accumulated Profits During the Transitional Period

During the transitional period from 31 July 2022 to the Completion Date, without written consent from Ningxia Building Materials, CNBM Technology shall not conduct profit distribution, dividend distribution, bonus issue, transfer of share capital from capital reserve and reduction of share capital etc. which would result in changes to its the share capital.

Within 30 days of the Completion Date, Ningxia Building Materials shall hire a qualified accounting firm under the PRC Securities Law to conduct special audit of the profits and losses during the transitional period.

Both parties agree that, in accordance with the special audit report, all profits generated from the operation of CNBM Technology during the transitional period shall be enjoyed by Ningxia Building Materials and the losses generated from the operation shall be compensated by CNBM Elink Co., Ltd* (中建材智慧物聯有限公司), China National Building Material Import and Export Co., Ltd.* (中建材集團進出口有限公司), Beijing Zhongchengzhida Chuangye Investment Center (Limited Partnership)* (北京眾誠志達創業投資中心(有限合夥)), CBMJI and CNBM Investment Company Limited* (中建材投資有限公司) in accordance with their shareholdings in CNBM Technology as at the date of the Second Supplemental Agreement. The compensation payment shall be made to Ningxia Building Materials within 30 days from the date of its written demand.

Creditor's Rights and Debt Treatment, Employee Placement and Other Arrangements

Subsidiaries of CNBM Technology will inherit all the assets, liabilities, business, contracts, licenses, personnel of CNBM Technology. Such subsidiaries will become subsidiaries of Ningxia Building Materials on Completion Date.

For any undisclosed potential liabilities or contingent liabilities incurred by CNBM Technology before the Completion Date and confirmed by judicial authentication procedures to be borne by CNBM Technology which result in liabilities on the part of Ningxia Building Materials or the entity that inherent all the assets of CNBM Technology, any such liabilities that are in fact assumed by Ningxia Building Materials or the entity that inherit all the assets of CNBM Technology as confirmed by judicial authentication procedures will be compensated by CNBM Elink Co., Ltd* (中建材智慧物聯有限公司), China National Building Material Import and Export Co., Ltd.* (中建材集團進出口有限公司), Beijing Zhongchengzhida Chuangye Investment Center (Limited Partnership)* (北京眾誠志達創業投資中心(有限合夥)), CBMJI and CNBM Investment Company Limited* (中建材投資有限公司) in accordance with their shareholdings in CNBM Technology as at the date of the Second Supplemental Agreement. The compensation payment shall be made in cash to Ningxia Building Materials within 30 days from the date of its written demand. If any part of the undisclosed potential liabilities or contingent liabilities has been compensated under the Compensation Agreement, no further compensation is required under this arrangement.

Compensation Agreement

The Compensation Agreement has been entered into among Ningxia Building Materials and the Compensation Obligors in connection with the Merger by Absorption and in accordance with, among others, the Administrative Measures for the Material Asset Reorganisations of Listed Companies, and will take effect upon the Merger Agreements becoming effective.

Profit undertaking and compensation

The Compensation Obligors have undertaken that the actual net profits (which shall be the net profit attributable to the shareholders of the Parent after deducting extraordinary gains and losses) with respect to the Profit Undertaking Assets shall not be lower than the committed net profits, being RMB231.2573 million in 2023, RMB294.6971 million in 2024 and RMB336.2564 million in 2025 (and RMB365.7173 million in 2026, if applicable).

The Compensation Obligors separately predicted the net profit of CNBM Technology and with reference to the profit forecast of its subsidiaries (CNBM Technology (Hong Kong), CNBM Xinyun Smart Technology, Beijing Yuanyi, Proaxia Information Technology) in the coming years, and predicted the consolidated net profit attributable to the Parent in the future years according to the shareholding ratio of CNBM Technology to its subsidiaries.

The forecast results for CNBM Technology and its subsidiaries for the coming years are as follows:

Net Profit *(RMB'000)*	**2023E**	**2024E**	**2025E**	**2026E**
CNBM Technology	154,024.3	200,126.4	228,990.0	245,318.6
CNBM Technology (Hong Kong)	55,399.8	55,353.3	55,304.4	55,253.1
CNBM Xinyun Smart Technology	11,693.1	27,323.9	38,648.2	50,958.0
Beijing Yuanyi	14,819.4	18,169.4	21,127.4	23,221.5
Proaxia Information Technology	3,972.7	4,041.8	3,905.8	3,607.2

The consolidated net profit attributable to the Parent is calculated based on the ratio of the shareholding of CNBM Technology in the subsidiaries:

Net Profit *(RMB'000)*	**Shareholding Ratio**	**2023E**	**2024E**	**2025E**	**2026E**
CNBM Technology	100%	154,024.29	200,126.37	228,990.02	245,318.6
CNBM Technology (Hong Kong)	100%	55,399.81	55,353.27	55,304.39	55,253.1
CNBM Xinyun Smart Technology	100%	11,693.10	27,323.90	38,648.20	50,958.0
Beijing Yuanyi	51%	7,557.89	9,266.41	10,774.99	11,842.97
Proaxia Information Technology	65%	2,582.23	2,627.16	2,538.76	2,344.68
Consolidated Net Profit attributable to the Shareholders of the Parent	**–**	**231,257.33**	**294,697.12**	**336,256.36**	**365,717.35**

(1) Method of calculation

(a) Ningxia Building Materials shall engage an auditing firm after the end of each Applicable Period for issuing a specific audit report regarding the actual net profits with respect to the Profit Undertaking Assets.

(b) The compensation shall be made by the Compensation Obligors by means of Compensation Shares.

(c) The amount to be compensated by each Compensation Obligor in respect of the profit undertaking in each Applicable Period shall be calculated in accordance with the following formula:

$$\text{Compensation amount} = \frac{\text{(Cumulated committed net profits as at the end of the Applicable Period – Cumulated actual net profits as at the end of the Applicable Period)}}{\text{Total committed net profits for all Applicable Periods during the Compensation Period}} \times \text{Total value of the consideration in respect of the Profit Undertaking Assets pursuant to the Merger by Absorption} \times \frac{\text{The number of shares in CNBM Technology owned by the relevant Compensation Obligor as at the date of the Compensation Agreement}}{\text{Total number of shares in CNBM Technology}} - \text{Cumulated amount compensated by the relevant Compensation Obligor}$$

(d) The number of Compensation Shares to be compensated by each Compensation Obligor shall be calculated by dividing the relevant compensation amount by the Issue Price.

(e) If the compensation amount is less than 0, the value shall be taken to be 0 and the Compensation Shares compensated shall not be reversed. If any calculated number of Compensation Shares has decimals, it shall be rounded to the integer by removing the decimals and added with 1 share.

(f) If there is any ex-right event, such as bonus issue, transfer to share capital from capital reserve and distribution of stock dividend, by Ningxia Building Materials during the Compensation Period, the number of Compensation Shares to be compensated shall be adjusted accordingly.

(g) If Ningxia Building Materials distributes cash dividend during the Compensation Period, the cash dividend attributable to the Compensation Shares with respect to the relevant Applicable Period shall be returned to Ningxia Building Materials.

(2) Timing for effectuating the compensation

In the event that compensation is required to be made pursuant to the above arrangements, Ningxia Building Materials shall, within 30 business days of the issue of the relevant specific audit report, convene a board meeting and give notice for convening a shareholders' meeting to approve the repurchase of the relevant Compensation Shares at a total consideration of RMB1.00 and the cancellation of such Compensation Shares.

If such proposal is approved at Ningxia Building Materials' shareholders' meeting, Ningxia Building Materials shall, within 5 business days of the announcement of the relevant resolutions, give written notice regarding the number of Compensation Shares to be repurchased to the Compensation Obligors whom shall, within 5 business days of the receipt of such notice, collaborate with Ningxia Building Materials in the cancellation of the relevant Compensation Shares.

If such proposal is not approved at Ningxia Building Materials' shareholders' meeting or otherwise cannot be effectuated for any other reasons, Ningxia Building Materials shall, within 5 business days of the announcement of the relevant resolutions, give written notice regarding endowment to the Compensation Obligors whom shall, within 30 business days of the receipt of such notice, endow the relevant Compensation Shares to the shareholders of Ningxia Building Materials (other than the Compensation Obligors themselves with respect to their respective holding of the Consideration Shares) whose names appear on Ningxia Building Materials' register of members on the relevant record date according to the proportion of their respective shareholdings in the remaining share capital of Ningxia Building Materials after deducting the Compensation Obligors' respective holding of Consideration Shares on such record date.

The Compensation Obligors have undertaken to waive the voting rights attached to and the distributions attributable to the relevant Compensation Shares from the date of confirmation of the number of such Compensation Shares until such Compensation Shares are cancelled or endowed to the other shareholders of Ningxia Building Materials (as the case may be).

Impairment compensation

Upon expiry of the Compensation Period, Ningxia Building Materials shall engage an auditing firm to carry out impairment test on the Profit Undertaking Assets and issue a specific audit report. If (1) the proportion of the impairment amount as at the end of the Compensation Period to the total value of the consideration in respect of the Profit Undertaking Assets pursuant to the Merger by Absorption is greater than (2) the proportion of the total number of Compensation Shares compensated during the Compensation Period to the total number of Consideration Shares received by the Compensation Obligors pursuant to the Merger by Absorption, additional compensation shall be made by each Compensation Obligor by means of additional Compensation Shares, the number of which shall be calculated in accordance with the following formula:

$$\text{Number of additional Compensation Shares} = \frac{\text{Impairment amount as at the end of the Compensation Period x The relevant Compensation Obligor's percentage of shareholding in CNBM Technology as at the date of the Compensation Agreement}}{\text{Issue Price}} - \text{Total number of Compensation Shares compensated by the relevant Compensation Obligor during the Compensation Period}$$

Others

The total compensation to be made by each Compensation Obligor shall not exceed the value of the Consideration Shares received by such Compensation Obligor pursuant to the Merger by Absorption.

The Compensation Obligors have also undertaken, among others:

(1) not to transfer the Consideration Shares received by them pursuant to the Merger by Absorption within 36 months of the completion of the Merger by Absorption;

(2) not to reduce their holding of the Consideration Shares prior to the completion of performance of their compensation obligations and impairment compensation obligations;

(3) to use the Shares they receive pursuant to the Merger by Absorption to perform their compensation obligations and impairment compensation obligations as a priority, and not to evade their compensation obligations or encumber their Consideration Shares by pledges, guarantees or other encumbrances prior to the completion of performance of their compensation obligations;

(4) (where their Consideration Shares have been seized, frozen or otherwise for any reason and cannot be used as Compensation Shares) to make the relevant compensation to Ningxia Building Materials, within 10 business days of the issue of the relevant specific audit report, by cash in an amount equal to the product of the number of Compensation Shares that should have been compensated and the Issue Price; and

(5) (where any adjustments to the compensation obligations are required prior to the completion of performance thereof pursuant to any new requirements under applicable law and regulations etc. or any requests of the regulatory authorities) to enter into a supplemental agreement or issue a further undertaking as may be necessary to confirm the adjusted compensation obligations.

The Company will comply with Rule 14A.63 of the Listing Rules if the actual performance fails to meet the undertakings under the Compensation Agreement as and when appropriate.

Profit Forecast

Since the profit undertaking in respect of CNBM Technology are based on the valuation report of equity interest in CNBM Technology adopting, among others, the discounted cash flow method which is a type of income approach, the profit undertaking constitutes a profit forecast under Rules 14A.06(32) and 14.61 of the Listing Rules. Therefore, Rules 14A.70(13) (in respect of paragraph 29(2) of Appendix 1, Part B) 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 reports, which do not involve the adoption of accounting policies. So far as the calculations are concerned, the discounted cash flow 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 reports. Please see the Report from the Reporting Accountant in Appendix II.

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 regarding Profit Forecast in Appendix III.

Principal Assumptions Adopted in the Valuation Reports

(I) Basic assumptions

For the valuation report regarding CNBM Technology, it is assumed that:

1. *Transaction assumption*

   The transaction assumption assumes that the appraised entity and the assets and liabilities within the scope of appraisal are already in the process of transaction, which valuation conducted by the valuer is based on a comparable market in accordance with the conditions of transaction.

2. *Open-market assumption*

   The open-market assumption assumes that both parties to the transaction of assets traded or proposed to be traded in the market are of equal status and have opportunities and time to get adequate market information so as to make rational judgments on the function, usage and trading price of the assets.

3. *Continuous operation assumption*

   Going-concern assumption assumes that the appraised entity continues to operate after the Valuation Reference Date.

4. *Continuous use of assets assumption*

   The continuous use of assets assumption assumes that the assets under evaluation will continue to be used legally and effectively according to their current use, use mode, scale, frequency, environment and other conditions, and there will be no significant change in the foreseeable service life.

(II) Special assumptions

For the valuation report regarding CNBM Technology, it is assumed that:

1. it is assumed that there will be no significant changes in the prevailing applicable laws, regulations and policies and the macro-economic environment of the PRC, and the political, economic and social environment in the region where the parties to the transaction operate;

2. it is assumed that there will be no significant changes in the national credit interest rate, exchange rate, tax base and tax rate, policy collection fees, etc. related to the appraised unit after the Valuation Reference Date;

3. it is assumed that the industry of the appraised entity maintains a stable development trend and there is no significant change in industrial policies, management systems and relevant regulations;

4. it is assumed that there are no other force majeure and unforeseen factors that cause significant adverse effects on the enterprise after the Valuation Reference Date;

5. it is assumed the accounting policies adopted by the appraised unit after the Valuation Reference Date are basically consistent with the accounting policies adopted in the preparation of the valuation report in the 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 the operator of the appraised unit is responsible and that the management personnel of the appraised unit has the ability to undertake such office;

8. it is assumed that the acquisition, acquisition and construction of the assets involved in the appraised unit comply with relevant national laws and regulations;

9. it is assumed that the cash inflow of the appraised unit is an average inflow, and the cash outflow is an average outflow after the Valuation Reference Date;

10. it is assumed that the contracts and agreements provided by the appraised unit that are being performed or to be performed are valid and will be completed as scheduled;

11. it is assumed that the trademark authorization contracts of the appraised unit can be renewed to use its trademark according to the current mode after such contracts expire;

12. it is assumed that the appraised unit can continue to enjoy corresponding tax preferential policies within the specified period in the future, including but not limited to CNBM Technology (Hong Kong), CNBM Xinyun Smart Technology and Proaxia Information Technology enjoying the preferential policies of calculating and deducting research and development expenses; Proaxia Information Technology enjoying the preferential policy of calculating and deducting input tax, as well as refund of value-added tax on the sale of software products;

13. it is assumed that the assets leased by the appraised unit for operation can be renewed normally and used continuously after the expiry of the term of the lease; and

14. all licenses, usage permits, consent letters, or other legal or administrative authorization documents issued by relevant local or national government agencies or organizations for using the assets which are adopted for valuation in the valuation report are used normally and compliant in compliance with the Valuation Reference Date; it is assumed that these licenses can be updated or renewed after the expiration of the validity period.

Valuation Methodology Applied

As at the Valuation Reference Date, the valuation of 100% equity interest of CNBM Technology based on the income-based approach was approximately RMB2,333.1 million, which was higher than the book value of all shareholders' equity (i.e. approximately RMB1,358.7 million) by approximately 71.72%. Such variance was mainly attributable to the fact that the book value of the appraised unit reflects the historical cost value of all shareholders' equity according to the accounting methods under the accounting policies, whereas using the income-based approach to calculate all shareholders' equity is a complete approach which reflects the overall profitability of the enterprise as a going concern, which includes the potential resources and asset values outside the book, such as the value of management of the operation of enterprise, customer resource value, human resource value and potential resources or assets value of other intangible assets which cannot be consolidated or listed; these resources and assets value cannot be readily measured using accounting policies and as a result, the evaluation results adopting the income approach shows an appreciation.

The Appraised Value under income approach was based on the following items: (a) appraised value of the net operating assets; (b) appraised value of the net non-operating assets; (c) appraised value of the long-term investment; and (d) interest-bearing liabilities.

Components	**Appraised value**
	RMB'000
Appraised value of the net operating assets	6,877,246
Appraised value of the net non-operating assets	886,522
Appraised value of the long-term investment	1,223,039
Less: Interest-bearing liabilities	(6,653,665)
Appraised value	2,333,142

(a) Appraised value of the net operating assets

The Valuer has applied the discounted cash flow method to estimate the net present value of the projected free cash flow of the business operation at a discount rate to calculate the appraised value of net operating assets.

The appraised value of the net operating assets is based on the net present value of the projected free cash flow, which is further determined with reference to: (i) the estimated net profit; (ii) the estimated depreciation and amortization cost; (iii) the estimated interest expense after income tax; (iv) the estimated capital expenditure; and (v) the estimated changes in the working capital.

Discount rate

In estimating the discount rate for the income approach, the Valuer has adopted the weighted average cost of capital to compute the cost of capital as the discount rate. The discount rate of approximately 9.22% was adopted, which is determined with reference to the cost of equity and cost of debt.

Cost of debt is determined by the loan prime rate ("**LPR**") on the bank loans for one year immediately preceding the Valuation Reference Date as announced by the People's Bank of China ("**PBoC**").

The Valuer adopted Weighted Average Cost of Capital pricing model (WACC).

$$R_{WACC}=R_e \times W_e+R_d \times (1\text{-}T) \times W_d$$

R_e: cost of equity; R_d: cost of debt; W_e: equity capital structure ratio; W_d: interest-bearing debt capital structure ratio; T: applicable income tax rate.

Cost of equity (R_e) is calculated under Capital Asset Pricing Model (CAPM). The formula is set out as below:

$$R_e= R_f+ \beta \times MRP+R_c$$

R_f: risk-free rate; MRP (R_m-R_f): market average risk premium; R_m: market-expected rate; β : expected market risk coefficient; R_c: enterprise-specific risk adjustment factor

Cost of equity is determined by the following:

(i) risk-free rate is the average of yield on PRC government bonds which will expire after 10 or more years from the Valuation Reference Date. The risk-free rate refers to the minimum return rate investors should obtain under the current market conditions. The Valuer adopted the average yield of 3.88% on PRC government bonds which will expire after 10 or more years from the Valuation Reference Date as the risk-free rate;

(ii) market risk premium is the level of risk-reward that equity investors in the stock market would require compensating them for the level of risk undertaken versus a risk-free rate. The figure is determined based on the yield of Shanghai Stock Exchange Composite Index and Shenzhen Stock Exchange Composite Index from 1991 to 2021. After calculation, the market risk premium is determined to be 6.97%;

(iii) levered beta is determined with reference to (a) the average unlevered beta of three comparable companies which are listed on the PRC stock market and engaged in sales of ICT products and provision of digital services; (b) debt-to-equity ratio (calculated based on total interest-bearing liabilities divided by the market value of the shares) of the comparable companies; and (c) the applicable enterprise income tax rate of CNBM Technology. Based on this, the leverage beta value is 1.1548;

(iv) enterprise-specific risk adjustment factor is determined based on the operating risk, operating scale, life cycle, major customers, and reliance on suppliers of CNBM Technology. Since the target of the valuation is a non-listed company, while the comparable companies are listed companies, the valuation needs to be adjusted by specific risk factors. After comprehensive consideration of factors including the risk characteristics, enterprise scale, major customers and supplier dependence, the specific risk coefficient of the target is determined to be 2.00% after comprehensive analysis;

(v) discount rate of cost of equity is calculated by substituting the selected risk-free rate and risk-reward rate into the discount rate estimation formula;

$\mathbf{R_e = R_f + \beta \times MRP + R_c = 13.93\%}$

(vi) WACC discount rate. According to the abovementioned principles and methods for the determination of capital structure, the interest-bearing debt/equity value ratio is 73.18%, W_d, W_e, and R_d are determined accordingly as:

W_d: interest-bearing debt capital structure ratio is 42.26%; W_e: equity capital structure ratio is 57.74%; R_d: After considering factors such as the business performance, capital structure, credit risk, mortgage and pledge, and guarantee of the target, R_d is calculated based on the loan market quotation rate LPR to be 3.70%.

In sum, $R=R_e \times W_e+R_d \times (1-T) \times W_d=9.22\%$

Estimated operating income

The core business of CNBM Technology includes ICT value-added distribution, digital services, etc.

During 2020, 2021 and the seven months ended 31 July 2022, the revenue derived from ICT value-added distribution business accounted to 99.74%, 99.55% and 99.77%, respectively, of CNBM Technology's total revenue, making it the main source of revenue of CNBM Technology. However, it is expected that the concentration will decline in the coming years and will remain at approximately 97%, while the revenue from digital services is expected to grow rapidly and continuously to about 3% in the coming years. With CNBM Technology's increasing investment in R&D and technology, the revenue from digital services is expected to make greater contribution to the profitability of CNBM Technology.

During 2020, 2021 and the seven months ended 31 July 2022, the revenue derived from ICT value-added distribution business had fluctuated primarily due to the instability in chip supply chain of upstream companies and the expected risk and challenge in logistics. As CNBM Technology continues to leverage its ecological platform value and channel resources advantages to strengthen strategic partnerships with domestic and overseas mainstream manufactures, it is expected that CNBM Technology's downstream demand will remain stable. CNBM Technology's ICT value-added distribution business is expected to remain stable as a whole, and the revenue scale is expected to increase slightly from the current level.

CNBM Technology's digital services business mainly serves the building materials and energy industries. It aims to promote the deep integration of information technology and industrial technology, upgrade the digitalization and intellectualization for enterprises, including but not limited to offering services of industrial internet, artificial intelligence, and enterprise management applications, and provide customers with industry consulting, industry application customized development, solution implementation, and delivery, operation and maintenance services. The revenue forecast of CNBM Technology's digital services business for 2022 is mainly based on the annual data provided by CNBM Technology, profit forecasts, contracts in hand, sales framework contracts, and follow-up projects; the revenue forecast for 2023 and subsequent years are mainly based on newly signed contracts in 2022 and the framework cooperation agreement signed with the Parent, taking into account the successive development of the project and the subsequent expansion of other product lines, as well as the national "14th Five-Year" digital economy development plan and the impact of relevant policies of the digital transformation action plan for intelligent manufacturing of the building materials industry. It is expected that the revenue from digital services will show a rapid growth trend in the next few years and will stabilize in 2027.

Estimated net profit

In estimating the net profit in relation to the principal business of CNBM Technology:

(i) the revenue is estimated based on (a) the ongoing contracts on hand of CNBM Technology as at the date of the Valuation Report; and (b) the estimate of growth of the business of approximately 2%, which is determined based on the anticipated development of ICT products, cloud computing and digital services industry since 2023;

(ii) the gross profit is estimated based on the above revenue and the historical gross profit rates for each of two years ended 31 December 2021 and for the seven months ended 31 July 2022;

(iii) the tax and surcharges, selling expense, and administrative expense are estimated based on the above revenue and the historical proportion of the respective expenses as stated above to the revenue for the two years ended 31 December 2021 and seven months ended 31 July 2022; and

(iv) the income tax expense is estimated based on the estimated profit before income tax and the PRC enterprise income tax rate of 25%.

Estimated operation cost

Through the analysis of the historical annual operating cost and gross profit margins of CNBM Technology, the operating cost of CNBM Technology mainly includes the procurement costs of ICT value-added distribution services and the subcontracting costs of digital services, personnel costs, depreciation and amortization, etc. The gross profit margin of CNBM Technology has been relatively stable in recent years. During 2020, 2021 and the seven months ended 31 July 2022, the gross profit margins of CNBM Technology's ICT value-added distribution business were 7.27%, 8.06%, and 8.21%, respectively; the gross profit margins of its digital services business were 26.32%, 21.74% and 15.48%, respectively.

The operating costs of ICT value-added distribution business for 2022 and the subsequent years are calculated based on the forecast gross profit margin, which is mainly determined based on the gross profit margin in the historical years and the future business development budget provided by CNBM Technology. It is expected to be no significant difference between the gross profit margin of the future year and the historical year. Such cost of digital services business is mainly based on the future business development budget provided by CNBM Technology, taking into account of the framework agreement signed between CNBM Technology and the Parent. With the continuous improvement in CNBM Technology's technical capabilities, its comprehensive solutions will become a more prominent core competitive strength. Its gross profit margin is expected to increase.

Estimated sales expenses

Sales expenses mainly include employee salaries, warehousing and storage fees, transportation and travel expenses, entertainment expenses, sales service fees, office expenses, intermediary agency fees, property insurance fees, lease fees, depreciation and amortization fees, and others. During 2019, 2020, 2021 and the seven months ended 31 July 2022, the sales expense ratios of CNBM Technology were 1.72%, 1.92%, 2.74%, and 2.90%, respectively.

Business expansion will lead to an increase in sales expenses, including warehousing and storage fees, transportation and travel expenses, entertainment expenses, sales service fees, intermediary agency fees, property insurance fees, leasing fees, advertising and publicity fees and other major sales expenses, therefore the forecast is based on sales expenses as a percentage of revenue in 2019, 2020, 2021 and the seven months ended 31 July 2022. Other recurring expenses are forecasted by considering the historical level, eliminating abnormal fluctuation factors in the historical period, and considering the relevant policies and development plans of CNBM Technology.

Estimated depreciation and amortization cost

The estimated depreciation and amortization cost is determined with reference to the net book value of the fixed assets and intangible assets as at 31 July 2022 and the historical average depreciation or amortization rate of each category of the above assets as at the same date.

Estimated management expenses

Management expenses mainly include employee salaries, lease fees, depreciation and amortization expenses, office-related expenses, consulting fees, party building work expenses, transportation and travel expenses, business entertainment expenses, fees for hiring intermediary agencies, utility fees, litigation fees, repair fees and others. During 2019, 2020, 2021 and the seven months ended 31 July 2022, the management expense ratios of CNBM Technology were 0.61%, 0.54%, 0.80%, and 0.82%, respectively.

The remuneration of management is mainly related to the future salary increase rate and the remuneration policy of CNBM Technology. The forecast of the personnel salary in the forecast period is determined by predicting the number of future management personnel and the per capita annual salary, which is based on the salary level of personnel in the historical period and CNBM Technology's future business development plan.

Depreciation refers to the annual depreciation expense of fixed assets, which is predicted by multiplying the original book value of fixed assets by the annual depreciation rate. Amortization uses the annual amortization of intangible assets as the predicted value. It is forecasted by considering CNBM Technology's depreciation and amortization distribution ratio in different expenses during the historical period.

Office-related expenses mainly include office expenses, transportation and travel expenses, entertainment expenses and other management expenses. It is forecasted by considering the average level of various management expenses in the historical years with reference to CNBM Technology's expense change rate in the historical years, and the inflation factors to determine the reasonable growth rate in the forecast period. It is further determined based on the historical value eliminating the abnormal fluctuation factors during the historical period. The perpetual period is assumed to be the same as 2027.

Estimated research and development (R&D) expenses

R&D expenses are mainly staff salaries, depreciation and amortization, system development and other expenses. The cost of employee salaries accounts for a relatively high proportion, reaching more than 80%. During 2019, 2020, 2021 and the seven months ended 31 July 2022, the R&D expense ratios of CNBM Technology were 0.58%, 0.25%, 0.51%, and 0.36%, respectively.

The remuneration of R&D personnel includes employee salaries, social insurance, welfare expenses, etc. Such expenses are mainly related to future expected salary increases and CNBM Technology's remuneration policy. The forecast of salary and surcharges of personnel in the forecast period is determined according to the salary level in the historical period, taking into account of the future business development plan of CNBM Technology.

System development and other expenses include outsourced equipment, development service outsourcing personnel and related expenses, etc. Such expenses are forecasted based on the fee change rate during historical period and a reasonable growth rate during the forecast period, which is determined by taking into account of inflation factor. The forecast is further determined on the basis of eliminating abnormal fluctuation factors in the historical period.

R&D expenses also involve a small amount of depreciation and amortization, which are mainly forecasted based on historical allocation ratios. The perpetual period is assumed to be the same as 2027.

Estimated financial expenses

Financial expenses mainly include interest expenses, interest income, handling fees, and exchange gains and losses. Interest expenses are mainly interest expenses of a borrowing nature, including long-term and short-term loan interest, letter of credit interest, etc. The forecast in this valuation is based on the average level of interest-paying debts etc. as a percentage of operating income in historical period, considering CNBM Technology's future business development plan. Due to the particularity of the business model of CNBM Technology, there was a relatively large handling fee in the historical period. Therefore, the forecast of the handling fee expenditure is based on the proportion of the handling fee expenditure to the operating income in the historical period. As the excess funds have been separately considered in the surplus funds, interest income is not forecasted. The exchange gains and losses have relatively large uncertainty in the future due to the exchange rate of the currency market, as a result, this valuation does not forecast such trend.

Estimated interest expense after income tax

The estimated interest expense after income tax is forecast based on (i) the estimated revenue; (ii) the historical proportion of the interest expense before income tax to the revenue for the year ended 31 December 2022; and (iii) the PRC enterprise income tax rate of 25%.

Estimated capital expenditure

The estimated capital expenditure is forecast with reference to the plan of CNBM Technology to purchase the machinery and equipment for the business operation during the forecast period.

Estimated changes in the working capital

The estimated changes in the working capital are forecast based on (i) the estimated revenue and estimated gross profit as shown above; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the five years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year.

Sensitivity analysis of the key assumptions

The appraisal used a WACC value of 9.22%, and a sensitivity measurement of WACC resulted in the following impact on the value of CNBM Technology's total shareholders' equity:

Unit: RMB '000

7.00%	8.00%	9.00%	9.22%	10.00%	11.00%
4,058,835.9	3,166,592.8	2,467,309.2	2,333,141.6	1,903,233.3	1,437,609.7

(b) Appraised value of the net non-operating assets

The non-operating assets and liabilities represent those assets and liabilities which are not involved in the generation of free cash flow of CNBM Technology. The following table sets out the breakdown of the net non-operating assets as at the Valuation Reference Date:

	As at 31 July 2022			
	Appraised value	**Net book value**	**Difference**	*Note*
	RMB'000	*RMB'000*	*RMB'000*	
Non-operating assets, including:	943,792	943,792	–	
Cash and cash equivalent	32,942	32,942		1
Trade receivables	505,520	505,520	–	2
Other receivables	219,442	219,442	–	3
Other current assets	26,603	26,603	–	4
Long-term prepaid expenses	2,288	2,288	–	5
Deferred tax assets	153,997	153,997	–	6
Other non-current assets	3,000	3,000	–	7
Less: Non-operating liabilities, including:	57,270	57,270	–	
Short-term borrowings	7,620	7,620	–	8
Trade payables	21,352	21,352	–	9
Other payables	8,188	8,188	–	10
Long-term liabilities due within one year	20,110	20,110	–	8
Net non-operating assets	886,522	886,522	–	

Notes:

1. The cash and cash equivalent represents the excessive bank balance more than needed for the daily business operation of CNBM Technology.

2. The trade receivables represent the balance due from the related parties and the outstanding balance due from two customers. Due to the disputes between CNBM Technology and the two customers, respectively, CNBM Technology has filed with the court against the two customers. As at the Valuation Reference Date, the litigations between CNBM Technology and the two respective customers have not started.

3. The other receivables mainly represent the deposit of rental properties, property management, and tenders.

4. Other current assets mainly represent the prepaid income tax expense.

5. The long-term prepaid expenses represent the guarantee expenditure for the issue of asset-back securities, which will be valid for at least 12 months.

6. The deferred tax assets derived from the provision of trade and other receivables and inventories.

7. The other non-current assets mainly represent the asset-backed securities purchased by CNBM Technology.

8. The balance of the borrowings represents the interest payable to be paid by CNBM Technology.

9. Reference is made to note 2 above. Given that the litigation between CNBM Technology and one of the customers as mentioned in note 2 has not started as at the Latest Practicable Date, all the balances of the trade payables derived from the transactions contemplated under the dispute as mentioned in note 2 was not taken into account when appraising the net operating-assets of CNBM Technology.

10. The other payables represent the deposit to be repaid to the counterparty and annual fee of patents.

Determination of the appraisal value of non-operating assets (liabilities)

The non-operating assets were accounts receivable, other receivables, other current assets, long-term amortized expenses, deferred income tax assets and other non-current assets. The appraisal was conducted using the cost method and the appraisal result was RMB910,849,600.

Determination of the appraised value of non-operating liabilities

Non-operating liabilities were: short-term borrowings, other payables, deferred income tax liabilities, non-current liabilities due within one year and other non-current liabilities; this appraisal adopted the cost method and the appraisal result was RMB57,269,900.

Determination of appraisal value of overflow assets

Surplus assets are surplus monetary funds in excess of those required to maintain the normal operation of the enterprise; the surplus monetary funds of the appraised entity in excess of those required to maintain the normal operation of the enterprise, the appraisal result is RMB32,942,000.

Determination of appraisal value of interest-paying liabilities

As at the Valuation Reference Date, the carrying amount of short-term borrowings of CNBM Technology was RMB4,853,665,200, the carrying amount of non-current liabilities due within one year was RMB765,000,000, and the carrying amount of long-term borrowings was RMB1,035,000,000.

Unit: RMB'000

No.	Item	Book value	Appraised value
1	Short-term borrowings	4,853,665.2	4,853,665.2
2	Non-current liabilities due within one year	765,000.0	765,000.0
3	Long-term borrowings	1,035,000.0	1,035,000.0
	Total	**6,653,665.2**	**6,653,665.2**

Determination of appraisal value of long-term equity investments

The appraisal of the long-term equity investment unit was conducted using the asset-based method and the income approach based on the specific circumstances of the unit, and the appraised value of the entire shareholders' equity of the long-term equity investment was calculated and determined in accordance with the corresponding investment ratio.

Reason of using cost method

The surplus assets, non-operating assets and liabilities included in the scope of appraisal are all individual assets and do not have overall profitability; no comparable reference of the same or similar nature can be found in the current market. There are no assets or liabilities that are difficult to identify and assess for the purpose of this appraisal, and therefore the cost approach is appropriate.

(c) Appraised value of the long-term investment

The following table sets forth the breakdown of the long-term investments:

Company	Valuation method used to determine the appraised value	Shareholding percentage as at the Valuation Reference Date	Appraised value	Net book value	Variance
			RMB'000	*RMB'000*	*RMB'000*
			a	*b*	*c=a-b*
CNBM Xinyun Smart Technology	Income approach	100.00%	733,613	200,000	533,613
CNBM Technology (Hong Kong)	Income approach	100.00%	377,171	16,346	360,825
Beijing Yuanyi	Income approach	51.00%	76,552	62,449	14,103
Proaxia Information Technology	Income approach	65.00%	35,703	15,795	19,908
		Total	1,223,039	294,590	928,449

The following tables set forth the key financial figures of CNBM Technology (including each of CNBM Technology Subsidiary) for each financial year in the forecast period.

CNBM Technology

Unit：RMB'000

Item/Year	August – December 2022	2023	2024	2025	2026	2027	Perpetual Period
Operating income	**8,510,660**	**15,764,486**	**16,067,688**	**16,392,199**	**16,718,809**	**17,035,326**	**17,035,326**
Operating expenses	7,925,958	14,574,081	14,781,402	15,048,659	15,323,140	15,602,889	15,602,889
Taxes and surcharges	11,914	28,439	28,717	29,541	30,377	30,948	30,948
Sales expenses	215,066	462,613	481,779	484,360	500,014	511,460	511,460
Management expenses	41,093	115,892	121,858	127,878	132,629	136,125	136,125
Research and development expenses	26,997	60,953	64,001	67,613	70,361	73,245	73,245
Financing expenses	142,133	329,313	336,008	342,775	349,976	357,214	357,214
Credit impairment losses	49,547	–	–	–	–	–	–
Asset impairment loss	6,766	–	–	–	–	–	–
Investment profits	-22,309	–	–	–	–	–	–
Other profits	512	–	–	–	–	–	–
Operational profits	**69,400**	**193,193**	**253,925**	**291,373**	**312,313**	**323,444**	**323,444**
Add: extra-operational income	6,827	–	–	–	–	–	–
Subtract: extra-operational expenses	513	–	–	–	–	–	–
Total profits	**75,714**	**193,196**	**253,925**	**291,373**	**312,313**	**323,444**	**323,444**

Item/Year	August – December 2022	2023	2024	2025	2026	2027	Perpetual Period
Income tax expenses	13,418	39,171	53,799	62,383	66,994	69,118	69,118
Net profits	**62,296**	**154,024**	**200,126**	**228,990**	**245,319**	**254,326**	**254,326**
+ depreciation	–	2,625	5,126	7,261	8,159	8,230	8,230
+ amortization of intangible assets	4,514	18,841	18,634	18,549	18,083	11,656	11,656
– additional capital expenses	1,846.5	18,556	34,614	18,556	2,499	2,499	19,886
– net increase of operational funds	1,062,780	-1,711,964	-1,475,654	82,729	85,072	87,403	–
+post-tax interest	92,075	211,948	216,430	221,030	225,906	230,706	230,706
Net cash flow	**-905,741**	**2,080,845**	**1,881,356**	**374,544.5**	**409,896**	**415,017**	**485,032**
Discount period	0.21	0.92	1.92	2.92	3.92	4.92	–
Discount percentage	9.22%	9.22%	9.22%	9.22%	9.22%	9.22%	9.22%
Discount coefficient	0.9818	0.9223	0.8445	0.7732	0.7079	0.6482	7.0299
Net present value	**-889,251**	**19,19240**	**1,588,761**	**289,594**	**290,173**	**268,997**	**3,409,734**
Operational asset value	**6,877,246**	**–**	**–**	**–**	**–**	**–**	**–**
Net non-operating assets	886,522	–	–	–	–	–	–
Long-term equity investment value	1,223,039	–	–	–	–	–	–
Corporation Value	**8,986,807**	**–**	**–**	**–**	**–**	**–**	**–**
Interest-bearing debt value	6,653,665	–	–	–	–	–	–
Complete shareholder rights value	2,333,142	–	–	–	–	–	–
Minority shareholder rights value	–	–	–	–	–	–	–
Shareholder rights value	**2,333,142**	**–**	**–**	**–**	**–**	**–**	**–**

CNBM Xinyun Smart Technology

Unit：RMB'000

Item/Year	August – December 2022	2023	2024	2025	2026	2027	Perpetual Period
Operating income	**803,588**	**827,840**	**896,924**	**954,453**	**1,032,895**	**1,115,000**	**1,115,000**
Subtract: operating expenses	786,803	727,310	775,154	815,606	871,283	937,979	937,979
Taxes and surcharges	477	3,760	3,996	4,339	4,777	5,156	5,156
Sales expenses	18,488	36,196	38,432	40,548	43,048	45,669	45,669
Management expenses	1,041	3,619	4,492	5,410	5,893	6,146	6,146
Research and development expenses	21,280	45,263	47,526	49,902	52,397	55,017	55,017
Financing expenses	-3,097	–	–	–	–	–	–
Credit impairment losses	3,673	–	–	–	–	–	–
Asset impairment loss	-922	–	–	–	–	–	–
Other profits	12,067	–	–	–	–	–	–
Operational profits	**-6,585**	**11,693**	**27,324**	**38,648**	**55,497**	**65,034**	**65,034**
Subtract: extra-operational expenses	1.5	–	–	–	–	–	–
Total profit	-6,587	11,693	27,324	38,648	55,497	65,034	65,034

Item/Year	August – December 2022	2023	2024	2025	2026	2027	Perpetual Period
Tax percentage	25%	25%	25%	25%	25%	25%	25%
Subtract: income tax expenses	-10,183	–	–	–	4,539	3,969	3,969
Net profits	**3,596**	**11,693**	**27,324**	**38,648**	**50,958**	**61,065**	**61,065**
+ depreciation and amortization	33	333	1,004	1,729	1,985	2,000	2,000
– additional capital expenses	32.6	5,149	10,220	5,149	78	78	2,000
– net operational capital increase	121,111	-367,227	80,988	14,533	19,669	27,941	–
+ after tax interest	2	–	–	–	–	–	–
Net cash flow	**-117,513**	**374,104**	**-62,880**	**20,696**	**33,196**	**35,046**	**61,065**
Discount period	0.21	0.92	1.92	2.92	3.92	4.92	5.92
Discount percentage	9.22%	9.22%	9.22%	9.22%	9.22%	9.22%	9.22%
Discount coefficient	0.9818	0.9223	0.8445	0.7732	0.7079	0.6482	7.0299
Net present value	**-115,373**	**345,050**	**-53,101**	**16,002**	**23,500**	**22,715**	**429,279**
Operating asset value	**668,072**	**–**	**–**	**–**	**–**	**–**	**–**
Net non-operating assets	65,541	–	–	–	–	–	–
Long-term equity investment value	–	–	–	–	–	–	–
Non-operational asset and debt value	**733,613**	**–**	**–**	**–**	**–**	**–**	**–**
Interest-bearing debt value	–	–	–	–	–	–	–
Shareholder rights value	**733,613**	**–**	**–**	**–**	**–**	**–**	**–**

CNBM Technology (Hong Kong)

Unit：RMB'000

Item/Year	August – December 2022	2023	2024	2025	2026	2027	Perpetuity Period
Operating income	**689,744**	**1,011,483**	**1,011,483**	**1,011,483**	**1,011,483**	**1,011,483**	**1,011,483**
Subtract: operating expenses	689,152	936,375	936,375	936,375	936,375	936,375	936,375
Sales expenses	680	1,126	1,182	1,241	1,303	1,368	1,368
Management expenses	–	116	121	128	134	141	141
Financing expenses	15,526	–	–	–	–	–	–
Credit impairment losses	2,275	–	–	–	–	–	–
Operational profit	-17,889	73,866	73,804	73,739	73,671	73,599	73,599
Subtract: extra-operational profit	128	–	–	–	–	–	–
Total profits	-18,017	73,866	73,804	73,739	73,671	73,599	73,599
Tax percentage	25%	25%	25%	25%	25%	25%	25%
Subtract: income tax expenses	–	18,467	18,451	18,435	18,418	18,400	18,400
Net profits	**-18,017**	**55,400**	**55,353**	**55,304**	**55,253**	**55,199**	**55,199**
– Net operational capital increase	542,220	-795,385	4	4	4	5	–
+post-tax interest	14,266	–	–	–	–	–	–
Net cash flow	**-545,971**	**850,785**	**55,349**	**55,300**	**55,249**	**55,195**	**55,199**
Discount period	0.21	0.92	1.92	2.92	3.92	4.92	–
Discount percentage	9.22%	9.22%	9.22%	9.22%	9.22%	9.22%	9.22%
Discount coefficient	0.9818	0.9223	0.8445	0.7732	0.7079	0.6482	7.0299
Net present value	**-536,031**	**784,710**	**46,741**	**42,758**	**39,112**	**35,775**	**388,046**
Operational asset value	**801,110**	**–**	**–**	**–**	**–**	**–**	**–**
Net non-operating assets	103,888	–	–	–	–	–	–
Long-term equity investment value	–	–	–	–	–	–	–
Corporation Value	**904,998**	**–**	**–**	**–**	**–**	**–**	**–**
Interest-bearing debt value	527,827	–	–	–	–	–	–
Shareholder rights value	**377,171**	**–**	**–**	**–**	**–**	**–**	**–**

Beijing Yuanyi

Unit：RMB'000

Item/Year	August – December 2022	2023	2024	2025	2026	2027	Perpetuity Period
Operating income	**294,215**	**85,298**	**975,810**	**1,087,792**	**1,176,882**	**1,271,000**	**1,271,000**
Operating expenses	275,182	80,153	917,425	1,023,066	1,107,163	1,195,705	1,195,705
Taxes and surcharges	686	131	1,493	1,661	1,793	1,938	1,938
Sales expenses	5986	1,520	16,195	17,192	18,155	19,167	19,167
Management expenses	3,451	951	9,973	10,460	10,974	11,522	11,522
Research and development expenses	–	–	–	–	–	–	–
Financing expenses	1,795	551	6,306	7,030	7,606	8,214	8,214
Credit impairment losses	-447	–	–	–	–	–	–
Asset impairment losses	2,996	–	–	–	–	–	–
Operational profits	**4,566**	**1,993**	**24,417**	**28,382**	**31,191**	**34,454**	**34,454**
Add: extra-operational income	0	–	–	–	–	–	–
Subtract: extra-operational expenses	12	–	–	–	–	–	–
Net profits	**4,555**	**1,993**	**2,4417**	**28,382**	**31,191**	**34,454**	**34,454**
Income tax percentage	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Income tax expenses	1,108	5,108	6,248	7,255	7,970	8,799	8,799
Net profits	**3,447**	**14,819**	**18,169**	**21,127**	**23,222**	**25,655**	**25,655**
+ depreciation	33	73	70	62	56	59	59
+ intangible asset amortization	4	9	9	9	9	9	9
– additional capital expenses	26	62	62	62	62	68	68
– net operational capital increase	15,817	84,183	-53,858	29,470	2,3467	24,777	–
+ post-tax interest	1,235	4,134	4,730	5,273	5704	6,161	6,161

Item/Year	August – December 2022	2023	2024	2025	2026	2027	Perpetuity Period
Net cash flow	**-11,125**	**-65,210**	**76,773**	**-3,062**	**5,462**	**7,038**	**31,815**
Discount period	0.21	0.92	1.92	2.92	3.92	4.92	–
Discount percentage	9.22%	9.22%	9.22%	9.22%	9.22%	9.22%	9.22%
Discount coefficient	0.9818	0.9223	0.8445	0.7732	0.7079	0.6482	7.0299
Net present value	**-10,922**	**-60,145**	**64,833**	**-2,368**	**3,867**	**4,562**	**223,660**
Operating asset value	**223,490**	**–**	**–**	**–**	**–**	**–**	**–**
Surplus asset value	–	–	–	–	–	–	–
Non-operating asset and liability value	-65,189	–	–	–	–	–	–
Long-term equity investment value	–	–	–	–	–	–	–
Corporation Value	**158,302**	**–**	**–**	**–**	**–**	**–**	**–**
Interest-bearing debt value	8,200	–	–	–	–	–	–
Shareholder rights value	**150,102**	**–**	**–**	**–**	**–**	**–**	**–**

Proaxia Information Technology

Unit：RMB'000

Item/Year	August – December 2022	2023	2024	2025	2026	2027	Perpetuity Period
Operating income	**22,060**	**43,000**	**48,000**	**54,000**	**60,000**	**67,000**	**67,000**
Subtract: extra-operational expenses	13,508	24,136	26,943	30,310	33,678	37,607	37,607
Taxes and surcharges	7	326	364	410	455	508	508
Sales expenses	623	1,927	2,089	2,273	2,408	2,606	2,606
Management expenses	574	1,302	1,381	1,469	1,553	1,645	1,645
Research and development expenses	4,041	11,530	13,399	15,877	18,569	19,498	19,498
Financing expenses	-145	–	–	–	–	–	–
Credit impairment losses	9	–	–	–	–	–	–
Other profits	–	194	217	244	271	302	302
Operational profits	**3,440**	**3,973**	**4,042**	**3,906**	**3,607**	**5,438**	**5,438**
Add: extra-operational income	–	–	–	–	–	–	–
Subtract: extra-operational expenses	–	–	–	–	–	–	–
Total profits	**3,440**	**3,973**	**4,042**	**3,906**	**3,607**	**5,438**	**5,438.3**
Income tax percentage	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Subtract: income tax expenses	-903.0	–	–	–	–	–	–
Net profits	**4,343.1**	**3,972.7**	**4,041.8**	**3,905.8**	**3,607.2**	**5,438.3**	**5,438.3**
+ depreciation	16.5	81.1	94.3	107.4	63.8	64.6	64.6
+ amortization of intangible assets	–	–	–	–	–	–	–
– additional capital expenses	28.8	69.1	69.1	69.1	69.1	69.1	64.6
– net increase of operational funds	869.0	-3,445.7	1,571.7	1,904.4	1,922.7	2,057.3	–
+ post-tax interest	4.1	–	–	–	–	–	–

Item/Year	August – December 2022	2023	2024	2025	2026	2027	Perpetuity Period
Net cash flow	**3,466.0**	**7,430.4**	**2,495.3**	**2,039.6**	**1,679.1**	**3,376.5**	**5,438.3**
Discount period	0.21	0.92	1.92	2.92	3.92	4.92	–
Discount percentage	11.82%	11.82%	11.82%	11.82%	11.82%	11.82%	11.82%
Discount coefficient	0.9770	0.9027	0.8072	0.7219	0.6456	0.5774	4,884.6
Net present value	3,386.2	6,707.1	2,014.3	1,472.4	1,084.0	1,949.4	26,563.7
Operational asset value	**43,177.1**	**–**	**–**	**–**	**–**	**–**	**–**
Surplus asset value	11,404.1	–	–	–	–	–	–
Non-operating capital and debt value	347.2	–	–	–	–	–	–
Long-term equity investment value	–	–	–	–	–	–	–
Corporation value	**54,928.4**	**–**	**–**	**–**	**–**	**–**	**–**
Interest-bearing debt value	–	–	–	–	–	–	–
Shareholder rights value	**54,928.4**	**–**	**–**	**–**	**–**	**–**	**–**

The income approach was adopted for the valuation of the entire equity interest of each of CNBM Technology Subsidiary due to the following reasons:

(i) CNBM Technology Subsidiaries are mainly engaged in the provision of (a) ICT value-added service and digital services; and (b) artificial intelligence specializing in machine vision and deep learning, which are asset-light business models. As such, the amount of the fixed assets is low. In addition, asset-based approach can only reflect the value of each individual asset of CNBM Technology Subsidiaries but cannot reflect the value of the integration effect regarding the combination of each individual asset. As such, asset-based approach was not adopted for the valuation of CNBM Technology Subsidiaries;

(ii) market approach was not adopted for the valuation of the entire equity interest of each CNBM Technology Subsidiaries because there is very limited publicly available information in relation to the merger and acquisition of the companies whose business is similar to CNBM Technology Subsidiaries; and

(iii) income approach was adopted for the valuation of the entire equity interest of each CNBM Technology Subsidiaries because income approach can reflect the value of (a) the intangible assets which are not included in the respective balance sheets of CNBM Technology Subsidiaries; and (b) the integration effect regarding the combination of each individual asset, including but not limited to capability of research and development, management team, and customer relationships.

In view of the above, the appraised value of the long-term investment of each CNBM Technology Subsidiary is calculated based on the following items: (i) appraised value of the net operating assets; (ii) appraised value of the net non-operating assets; (iii) appraised value of the long-term investment; and (iv) interest-bearing liabilities. The following table sets out the details of the above of each CNBM Technology Subsidiary:

Components		**CNBM Xinyun Smart Technology**	**CNBM Technology (Hong Kong)**	**Beijing Yuanyi**	**Proaxia Information Technology**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Appraised value of the net operating assets		668,072	801,111	223,490	43,177
Appraised value of the net non-operating assets/(liabilities)		65,541	103,887	(65,188)	11,751
Appraised value of the long-term investment		–	–	–	–
Less: Interest-bearing liabilities		–	(527,827)	(8,200)	–
Total	a	733,613	377,171	150,102	54,928
Shareholding percentage by CNBM Technology	b	100%	100%	51%	65%
Appraised value	**c = a*b**	**733,613**	**377,171**	**76,552**	**35,703**

(i) Appraised value of the net operating assets

The Valuer has applied the discounted cash flow method to estimate the net present value of the projected free cash flow of the entire equity interests of CNBM Technology Subsidiaries at a discount rate.

The appraised value of the long-term investments is based on the net present value of the projected free cash flow of each CNBM Technology Subsidiary, which is further determined with reference to: (i) the estimated net profit; (ii) the estimated depreciation and amortization cost; (iii) the estimated interest expense after enterprise income tax; (iv) the estimated capital expenditure; and (v) the estimated changes in the working capital.

Discount rate

In estimating the discount rate for the income approach, the Valuer has adopted the weighted average cost of capital to compute the cost of capital as the discount rate. The discount rate was determined with reference to the cost of equity and cost of debt.

Regarding the levered beta under cost of equity, it is determined with reference to (i) the average unlevered beta of the comparable companies which are listed on the PRC stock market; (ii) debt-to-equity ratio of the comparable companies; and (iii) the applicable enterprise income tax rate of each CNBM Technology Subsidiary.

Estimated free cash flow

The following table sets out the basis of the estimation in relation to the net profit of each CNBM Technology Subsidiary:

	CNBM Xinyun Smart Technology	CNBM Technology (Hong Kong)	Beijing Yuanyi	Proaxia Information Technology
Revenue	(i) the ongoing contracts on hand as at the date of the Valuation Report; and (ii) the estimate of growth of the business, which is based on the anticipated development of ICT products and provision of digital services since 2023	The average revenue for two years ended 31 December 2022	(i) the ongoing contracts on hand as at the date of the Valuation Report; and (ii) the estimate of growth of the business, which is based on the anticipated development of ICT products and provision of digital services since 2023	(i) the ongoing contracts on hand as at the date of the Valuation Report; and (ii) the estimate of growth of the business, which is based on the anticipated development of machine vision and deep learning industry since 2023
Gross profit	(i) estimated revenue; and (ii) the historical gross profit ratio for the year ended 31 December 2022	(i) estimated revenue; and (ii) the average historical gross profit ratio for each of the two years ended 31 December 2022	(i) estimated revenue; and (ii) the historical gross profit ratio for the four years ended 31 December 2022	(i) estimated revenue; and (ii) the historical gross profit ratio for the three years ended 31 December 2022
Tax and surcharges, selling expense, and administrative expense	(i) revenue; and (ii) the average historical proportion of the respective expenses to the revenue for the two years ended 31 December 2021	(i) revenue; and (ii) the average historical proportion of the respective expenses to the revenue for the two years ended 31 December 2022	(i) revenue; and (ii) the historical proportion of the respective expenses to the revenue for the four years ended 31 December 2022	(i) revenue; and (ii) the historical proportion of the respective expenses to the revenue for the four years ended 31 December 2022

	CNBM Xinyun Smart Technology	CNBM Technology (Hong Kong)	Beijing Yuanyi	Proaxia Information Technology
Enterprise income tax expense	(i) estimated profit before income tax; and (ii) the PRC enterprise income tax rate of 25%	(i) estimated profit before income tax; and (ii) the PRC enterprise income tax rate of 25% *(Note)*	(i) estimated profit before income tax; and (ii) the PRC enterprise income tax rate of 25%	(i) estimated profit before income tax; and (ii) the PRC enterprise income tax rate of 25%
Depreciation and amortization cost	The net book value of the fixed assets and intangible assets as at the Valuation Reference Date and the historical average depreciation or amortization rate of each category of the above assets as at the same date	Not applicable because CNBM Technology (Hong Kong) does not have fixed assets or intangible assets. CNBM Technology provided all the fixed assets necessary for the operation of CNBM Technology (Hong Kong) to CNBM Technology (Hong Kong)	The net book value of the fixed assets and intangible assets as at the Valuation Reference Date and the historical average depreciation or amortization rate of each category of the above assets as at the same date	The net book value of the fixed assets and intangible assets as at the Valuation Reference Date and the historical average depreciation or amortization rate of each category of the above assets as at the same date
Interest expense after enterprise income tax	Not applicable because CNBM Xinyun Smart Technology will not have interest-bearing liabilities	The interest expense after enterprise income tax for FY2022 is determined according to the actual interest expense incurred in the same period. No interest expense will incur from the year ending 31 December 2023 because CNBM Technology (Hong Kong) will not have interest-bearing liabilities.	(i) the estimated revenue; (ii) the average historical proportion of the interest expense before income tax to the revenue for the three years ended 31 December 2021 and the seven months ended 31 July 2022; and (iii) the PRC enterprise income tax rate of 25%	Not applicable because Proaxia Information Technology will not have interest-bearing liabilities

	CNBM Xinyun Smart Technology	CNBM Technology (Hong Kong)	Beijing Yuanyi	Proaxia Information Technology
Capital expenditure	(i) plan to purchase the equipment (such as server, storage device) for the business operation during the forecast period; and (ii) historical incurred maintenance expenses for the existing fixed assets	Not applicable because CNBM Technology (Hong Kong) will not acquire any fixed assets or intangible assets. CNBM Technology will continue to provide all the fixed assets necessary for the operation of CNBM Technology (Hong Kong) to CNBM Technology (Hong Kong)	Historical incurred maintenance expenses for the existing fixed assets	Historical incurred maintenance expenses for the existing fixed assets
Changes in the working capital	(i) the estimated revenue and estimated gross profit; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the five years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year.	(i) the estimated revenue and estimated gross profit; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the two years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year.	(i) the estimated revenue and estimated gross profit; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the four years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year.	(i) the estimated revenue and estimated gross profit; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the two years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year.

Note: The adoption of PRC enterprise income tax rate of 25% is based on the assumption that all the net profit of CNBM Technology (Hong Kong) will be distributed to CNBM Technology, its sole shareholder established in the PRC. Since CNBM Technology (Hong Kong) is not a resident enterprise as defined under the PRC Taxation Law, the dividend to be distributed by CNBM Technology (Hong Kong) to CNBM Technology (i.e., the net profit of CNBM Technology (Hong Kong)) is liable to PRC enterprise income tax. Based on the taxation arrangement between the PRC and Hong Kong (to avoid double taxation), the maximum enterprise income tax, which is derived from the distribution of dividend as mentioned above, to be incurred is calculated based on (i) profit before tax of CNBM Technology (Hong Kong); multiplied by (ii) the PRC enterprise income tax rate of 25%.

(ii) Appraised value of the net non-operating assets

The appraised value and the net book value of the non-operating assets and liabilities of each CNBM Technology Subsidiary are the same. The following table sets out the breakdown of the net non-operating assets as at the Valuation Reference Date:

	Appraised value as at 31 July 2022				
	CNBM Xinyun Smart Technology	**CNBM Technology (Hong Kong)**	**Beijing Yuanyi**	**Proaxia Information Technology**	*Note*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Non-operating assets, including:	614,441	171,759	5,420	11,755	
Cash and cash equivalent	434,043	171,289	–	11,404	1
Trade receivables	116,348	–	–	–	2
Other receivables	41	–	1,341	–	3
Other current assets	48,168	–	133	350	4
Deferred tax assets	15,841	470	3,946	1	5
Less: Non-operating liabilities, including:	548,900	67,872	70,608	4	
Short-term borrowings	–	–	608	–	6
Trade payables	411,000	–	–	–	7
Other payables	137,900	67,872	70,000	4	8
Net non-operating assets/(liabilities)	65,541	103,887	(65,188)	11,751	

Notes:

1. The cash and cash equivalent represents the excessive bank balance more than needed for the daily business operation of each CNBM Technology Subsidiary.

2. The trade receivables represent the balance due from a customer of CNBM Xinyun Smart Technology. In 2020, the sales of CNBM Xinyun Smart Technology) were completed and it recognized the revenue accordingly. However, the above customer did not settle the trade receivables after such sales. In December 2022, both parties entered into the termination agreement in respect of such sales. In light of the above, the trade receivables were not considered as operating assets under the valuation of CNBM Xinyun Smart Technology.

3. The other receivables mainly represent the value-added tax deductible.

4. Other current assets mainly represent the prepaid income tax expense.

5. The deferred tax assets derived from the provision of trade and other receivables.

6. The balance of the borrowings represents the interest payable to be paid by Beijing Yuanyi.

7. The trade payables represent the amount due to the related party CNBM Technology.

8. The other payables mainly represent the amount due to the related party CNBM Technology.

(iii) Appraised value of the long-term investment

None of CNBM Technology Subsidiaries has long-term investments.

(iv) Interest-bearing liabilities

The appraised value of the interest-bearing liabilities of all CNBM Technology Subsidiaries was approximately RMB536 million as at the Valuation Reference Date, details of which are set out as follows:

	As at 31 July 2022			
	CNBM Xinyun Smart Technology	**CNBM Technology (Hong Kong)**	**Beijing Yuanyi**	**Proaxia Information Technology**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing liabilities	–	527,827	8,200	–

(d) Interest-bearing liabilities

According to the Valuation Report, as at the Valuation Reference Date, the appraised value of the interest-bearing liabilities was approximately RMB6,654 million, details of which are set out as follows:

Items of interest-bearing liabilities	31 July 2022
	RMB'000
Short-term borrowings	4,853,665
Long-term liabilities due within one year	765,000
Long-term borrowings	1,035,000
Total of interest-bearing liabilities	6,653,665

3. REASONS AND BENEFITS FOR THE MERGER BY ABSORPTION

The purpose of the Merger by Absorption, as part of the Proposed Transaction, is to resolve the industry competition with respect to the cement business. After the Merger by Absorption of CNBM Technology, Ningxia Building Materials will become the Company's digital service platform in the future, and will be able to fully utilise the advantages of CNBM Technology's digitalisation and smart logistics business platform, and promote the digitalisation of the industry by way of digital transformation, so as to advance both the real economy and the digital economy, and realise the premium-quality development of the Company.

4. INFORMATION ON RELEVANT PARTIES

The 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.

Ningxia Building Materials

Ningxia Building Materials is a subsidiary of the Company and is principally engaged in manufacturing and sales of cement and cement clinker, commercial concrete, aggregates, cementing materials and other building materials and intelligent logistics. Its A-shares are listed and traded on the Shanghai Stock Exchange (stock code: 600449). Upon Completion of the Merger by Absorption, Ningxia Building Materials will remain as a subsidiary of the Company.

Pursuant to the audited accounts of Ningxia Building Materials for the year ended 31 December 2021 and the year ended 31 December 2022 prepared in accordance with the generally accepted accounting principles of the PRC, the net profits (before taxation) of Ningxia Building Materials for the year of 2021 and the year of 2022 are approximately:

	For the financial year ended 31 December 2021	**For the financial year ended 31 December 2022**
Net profits before tax	RMB1,032.73 million	RMB731.74 million
Net profits after tax	RMB867.23 million	RMB578.39 million

Ningxia Building Materials' net asset value and total owner's equity attributable to parent as at 31 December 2022 are as follows:

	Net asset value	**Total owner's equity attributable to parent**
Ningxia Building Materials	RMB7,435.13 million	RMB7,040.77 million

CNBM Technology

CNBM Technology is an indirect subsidiary of the Parent and principally engaged in value-added distribution of enterprise-level ICT (information and communication) products, cloud computing and digital services. Its shares are listed and traded on The National Equities Exchange and Quotations (stock code: 834082).

Pursuant to the audited accounts of CNBM Technology for the year ended 31 December 2021 and the year ended 31 December 2022 prepared in accordance with the generally accepted accounting principles of the PRC, the net profits (before taxation) of CNBM Technology for the year of 2021 and the year of 2022 are approximately:

	For the financial year ended 31 December 2021	**For the financial year ended 31 December 2022**
Net profits before tax	RMB405.22 million	RMB81.46 million
Net profits after tax	RMB314.98 million	RMB89.20 million

CNBM Technology's net asset value and total owner's equity attributable to parent as at 31 December 2022 and the Appraised Value as at 31 July 2022 of 100% equity interests in CNBM Technology are as follows:

	Net asset value	**Total owner's equity attributable to parent**	**Appraised Value**
CNBM Technology	RMB1,969.41 million	RMB1,950.04 million	RMB2,333.1416 million

The decline in CNBM Technology's operating results in 2022 was due to bad debt accruals for its business with Suning.com. At the end of 2022, CNBM Technology's accounts receivable from Suning.com amounted to RMB316 million. CNBM Technology accrued bad debts on Suning.com's accounts receivable at the rate of 70% of the bad debt ratio, and the amount of bad debts accruals was RMB220 million.

The cumulative total of CNBM Technology's business with Suning.com is RMB1.519 billion, with an expected profit of around RMB100 million, cost incurred was RMB1.403 billion, RMB1.204 billion has been recovered, and currently there is RMB316 million in receivables.

According to Suning.com's 2022 earnings forecast, Suning.com's operating income in 2022 declined by 47% compared to 2021, and its net profit in 2022 still showed a certain scale of loss. Based on the above caliber, Suning.com's debt service ratio in 2021 is calculated to be 52.26%. Considering that Suning.com's operating income dropped significantly and still suffered the large-scale losses, taking the proportion of debt service ratio in 2021 as the base and referring to the decline in operating income, it is estimated that Suning.com's debt service ratio in 2022 to be 28%, and the loss ratio of CNBM Technology's accounts receivable was calculated to be 72%. CNBM Technology accrued bad debts on Suning.com's accounts receivable at the rate of 70% of the bad debt ratio.

As of the date of the valuation report, the bad debt ratio for this amount in the 2022 audit report of CNBM Technology has been supplemented to 70%. Although the base date of this appraisal is 31 July 2022, considering the possibility of further loss of this amount in the future, this appraisal determines that the estimated risk of loss of the amount involved in the lawsuit by Suning.com is 70%.

The Proposed Transaction was priced using the income approach, in which the performance forecast for 2022 was the true performance of CNBM Technology for 2022 and the performance forecast for future years was based on reasonable forecasts, while the Proposed Transaction was subject to the Compensation Agreement entered into among Ningxia Building Materials and the Compensation Obligors. The Compensation Obligors have undertaken that the actual net profits (which shall be the net profit attributable to the shareholders of the Parent after deducting extraordinary gains and losses) with respect to the Profit Undertaking Assets shall not be lower than the committed net profits, being RMB231.2573 million in 2023, RMB294.6971 million in 2024 and RMB336.2564 million in 2025 (and RMB365.7173 million in 2026, if applicable).

In summary, the Consideration Value is fair and reasonable and is in the interests of the Company and its shareholders as a whole.

The Company confirms, after reasonable enquiries and to the Company's knowledge, that (1) other than CNBM Elink Co., Ltd.* (中建材智慧物聯有限公司), China National Building Material Import and Export Co., Ltd.* (中建材集團進出口有限公司) and CBMJI (which are all subsidiaries of the Parent), none of the Eligible Shareholders for the Cash Option is a connected person of the Company; and (2) none of the Eligible Shareholders for the Put Option is a connected person of the Company.

5. FINANCIAL EFFECT OF THE MERGER BY ABSORPTION

The Group does not expect to record any gain or loss in relation to the Merger by Absorption.

The Company's shareholding percentage in Ningxia Building Materials upon completion of the Merger by Absorption will depend on the exercise results of the Put Option and the Cash Option. Assuming there is no change in the total number of issued shares of Ningxia Building Materials, the Company's shareholdings in Ningxia Building Materials and the shareholding structure of CNBM Technology between the Latest Practicable Date and the Completion Date, the Company's ultimate shareholding percentage in Ningxia Building Materials upon completion of the Merger by Absorption may range from approximately 35.97% (assuming neither the Put Option nor the Cash Option is exercised by any Eligible Shareholder for the Put Option or any Eligible Shareholders for the Cash Option) to approximately 82.63% (assuming that (1) all Eligible Shareholders for the Put Option exercise the Put Option and the Company as the Put Option Provider acquire shares in Ningxia Building Materials held by all the Eligible Shareholders for the Put Option, under which circumstances the maximum consideration payable by the Company to the Eligible Shareholders for the Put Option will be approximately RMB2.97 billion; and (2) all Eligible Shareholders for the Cash Option exercise the Cash Option and the Company as the Cash Option Provider acquires shares in CNBM Technology held by all the Eligible Shareholders for the Cash Option, under which circumstances the maximum consideration payable by the Company to the Eligible Shareholders for the Cash Option will be approximately RMB0.80 billion). As it is a condition to the Put Option and Cash Option that CBMJI shall not by virtue of providing the Put Option or the Cash Option obtain control in Ningxia Building Materials or result in a change of the Company's status as the controlling shareholder of Ningxia Building Materials, Ningxia Building Materials will remain as a subsidiary of the Company and its results will remain to be consolidated in the Company's financial statements upon completion of the Merger by Absorption.

6. IMPLICATIONS UNDER THE LISTING RULES

Merger by Absorption

As the Parent has direct and indirect equity interests of approximately 45.0192% in aggregate in the Company, it is a substantial shareholder of the Company. CNBM Technology is a subsidiary of the Parent and thus constitutes a connected person of the Company. Accordingly, the Merger by Absorption of CNBM Technology by Ningxia Building Materials constitutes a connected transaction of the Company.

As one or more applicable percentage ratios under Rule 14.07 of the Listing Rules for the Merger by Absorption are more than 5% but less than 25%, the Merger by Absorption constitutes (i) a discloseable transaction (both on a standalone basis and when aggregated with the grant of the Put Option as mentioned below as well as the net acquisition of Ningxia Saima as disclosed in the announcement dated 27 June 2023) of the Company under Chapter 14 of the Listing Rules, which is subject to the announcement requirement, and (ii) a connected transaction of the Company under the Listing Rules, which is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Deemed Disposal

As the issuance of Consideration Shares by Ningxia Building Materials to all the shareholders of CNBM Technology in the Merger by Absorption will result in a reduction of the Company's percentage of equity interests in Ningxia Building Materials, it therefore constitutes a deemed disposal pursuant to Rule 14.29 of the Listing Rules.

As the Parent has direct and indirect equity interests of approximately 45.0192% in aggregate in the Company, it is a substantial shareholder of the Company. The shareholders of CNBM (including CNBM Elink Co., Ltd.* (中建材智慧物聯有限公司), China National Building Material Import and Export Co., Ltd.* (中建材集團進出口有限公司), CMBJI) are subsidiaries of the Parent and thus constitute connected persons of the Company. Accordingly, the issuance of Consideration Shares by Ningxia Building Materials to such shareholders of CNBM Technology in the Merger by Absorption constitutes a connected transaction of the Company.

As one or more applicable percentage ratios under Rule 14.07 of the Listing Rules for the Deemed Disposal where the Consideration Shares are issued to all the shareholders of CNBM Technology (assuming that none of the shareholders of CNBM Technology exercises the Cash Option and the maximum number of shares in Ningxia Building Materials are to be issued as consideration) are more than 5% but less than 25%, the Deemed Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, which is subject to the announcement requirement.

As one or more applicable percentage ratios under Rule 14.07 of the Listing Rules for the Deemed Disposal where the Consideration Shares are issued to the connected persons are more than 0.1% but less than 5%, the Deemed Disposal where the Consideration Shares are issued to connected persons constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, which is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Grant of Put Option

As the Company's provision of the Put Option as a Put Option Provider to the Eligible Shareholders for the Put Option to acquire shares in Ningxia Building Materials held by the Eligible Shareholders for the Put Option will constitute a grant of option under Rule 14.73 of the Listing Rules, the grant of such option will be classified as if the option has been exercised according to Rule 14.74 of the Listing Rules.

As one or more applicable percentage ratios under Rule 14.07 of the Listing Rules for the grant of Put Option (assuming that all the Put Option has been exercised and the Company is the provider of all the Put Option) are more than 5% but less than 25% (both on a standalone basis and when aggregated with the Merger by Absorption as mentioned above as well as the net acquisition of Ningxia Saima as disclosed in the announcement dated 27 June 2023), the grant of Put Option constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, which is subject to the announcement requirement.

7. CEMENT ASSETS RESTRUCTURING

Ningxia Building Materials and Tianshan Cement entered into an indicative asset restructuring agreement on 28 April 2022 and a supplemental asset restructuring agreement on 27 June 2023, in connection with Tianshan Cement's proposed acquisition of certain cement assets from Ningxia Building Materials (the "**Cement Assets Restructuring**"). Please refer to the Company's announcement dated 27 June 2023 for the principal terms of the Cement Assets Restructuring.

8. PROPOSED PLACING BY NINGXIA BUILDING MATERIALS

Ningxia Building Materials proposes to conduct a placing ("**Proposed Placing**", together with the Cement Assets Restructuring and the Merger by Absorption, the "**Proposed Transactions**") of additional new shares if and after the Cement Assets Restructuring and the Merger by Absorption are completed. The total amount raised will not exceed 100% of the Consideration Value for the Merger by Absorption, and the number of shares issued will not exceed 30% of the total share capital of Ningxia Building Materials. Sinoma Group will participate in the Proposed Placing as a specific placee pursuant to a share subscription agreement entered into between Ningxia Building Materials and Sinoma Group on 28 December 2022, the principal terms of which have been set out in the Company's announcement dated 28 December 2022. The proceeds from the Proposed Placing, after deducting the relevant expenses of the Proposed Transactions, will be mainly used for the working capital of Ningxia Building Materials, payment of indebtedness, and processing of the relevant projects of CNBM Technology.

As at the Latest Practicable Date, the principal terms (including the number of shares to be issued under the Proposed Placing) have not been determined. As such, the impact of the Proposed Placing on the Company cannot be determined before the principal terms of the Proposed Placing are finalised (which will not be entered into before the completion of the Merger by Absorption). The Company will comply with the applicable requirements under the Listing Rules as and when the definitive terms of Proposed Placing are finalised.

9. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been established pursuant to the Listing Rules to advise the Independent Shareholders on the Merger by Absorption.

The Company has appointed Donvex Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Merger by Absorption.

10. EGM

The EGM of the Company will be held at Tower 2, Guohai Plaza, No. 17 Fuxing Road, Haidian District, Beijing, the PRC on Tuesday, 15 August 2023 at 2:00 p.m.. A form of proxy for use at the EGM is enclosed with this circular. A notice of the EGM is set out on pages 121 to 123 of this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions will be passed by way of poll at the EGM. Any shareholder with a material interest in the Merger by Absorption will abstain from voting on the relevant ordinary resolution for approving the Merger by Absorption at the EGM. To the extent that the Company is aware having made all reasonable enquiries, other than the Parent and its associates, no Shareholder will be required under the Listing Rules to abstain from voting on the ordinary resolution for approving the Merger by Absorption at the EGM. As at the Latest Practicable Date, the Parent and its associates have direct and indirect equity interests of approximately 45.0192% in aggregate in the Company, and controlled or were entitled to control over the voting right in respect of their shares in the Company.

Holders of H Shares of the Company whose names appear on the register of the Company maintained by Tricor Investor Services Limited, the Company's H Share Registrar in Hong Kong, and holders of Domestic Shares of the Company whose names appear on the register of the Company on Tuesday, 15 August 2023 shall be entitled to attend the EGM. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the EGM (i.e. not later than 2:00 p.m. on Monday, 14 August 2023) or any adjournment thereof (as the case may be), and deposit it with Tricor Investor Services Limited, the Company's H Share Registrar in Hong Kong, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for holders of H Shares; or the office of the Company, at Tower 2, Guohai Plaza, No. 17 Fuxing Road, Haidian District, Beijing, the PRC for holders of Domestic Shares and Unlisted Foreign Shares. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so desire.

11. RECOMMENDATION

The Directors (including independent non-executive Directors, upon considering the opinions of the Independent Financial Adviser) consider that the Merger by Absorption contemplated under the Merger Agreements and the Compensation Agreement has been negotiated on arm's length basis and is entered into in the ordinary and usual course of business and on normal commercial terms or better. The Merger by Absorption contemplated under the Merger Agreements and the Compensation Agreement is fair and reasonable and is in the interests of the Company and its Shareholders as a whole. Accordingly, the Board and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the resolution in relation to the Merger by Absorption contemplated under the Merger Agreements and the Compensation Agreement at the EGM.

Except five Directors (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 abstained from voting on the relevant Board resolution approving the Merger by Absorption contemplated under the Merger Agreements and the Compensation Agreement, none of the Directors has a material interest in the Merger by Absorption contemplated under the Merger Agreements and the Compensation Agreement.

12. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 58 to 59 of this circular and the letter from Donvex Capital Limited to the Independent Board Committee and the Independent Shareholders set out on pages 60 to 112 of this circular, and the information set out in the appendices of this circular.

By order of the Board
China National Building Material Company Limited*
ZHOU Yuxian
Chairman of the Board

Beijing, the PRC
28 July 2023

* *For identification purpose only*

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)

28 July 2023

Dear Independent Shareholders,

CONNECTED TRANSACTION IN RELATION TO THE MERGER BY ABSORPTION BY NINGXIA BUILDING MATERIALS OF CNBM TECHNOLOGY

Reference is made to the circular in relation to the connected transaction of China National Building Material Company Limited* (the "**Company**") dated 28 July 2023 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to give a recommendation to Independent Shareholders on the Merger by Absorption contemplated under the Merger Agreements and the Compensation Agreement to advise the Independent Shareholders on how to vote. Donvex Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard.

Having considered the information contained in the letter from the Board and taken into account the advice and recommendation of Donvex Capital Limited, in particular the factors, reasons and recommendations set out in the letter from the Independent Financial Adviser in the Circular, we are of the view that the Merger by Absorption contemplated under the Merger Agreements and the Compensation Agreement is fair and reasonable so far as the Independent Shareholders are concerned. The Merger by Absorption contemplated under the Merger Agreements and the Compensation Agreement is carried out in the ordinary course of business of the Group on normal commercial terms and in the interests of the Company and its shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Merger by Absorption contemplated under the Merger Agreements and the Compensation Agreement at the EGM.

We wish to draw the attention of the Independent Shareholders to (1) the letter from the Board set out on pages 1 to 57 of the Circular, (2) the letter from the Independent Financial Adviser set out on pages 60 to 112 of the Circular, and (3) each of the appendices to the Circular.

Yours faithfully,
Independent Board Committee

28 July 2023

Sun Yanjun	**Liu Jianwen**	**Zhou Fangsheng**	**Li Jun**	**Xia Xue**
Independent non-executive director of the Company	*Independent non-executive director of the Company*	*Independent non-executive director of the Company*	*Independent non-executive director of the Company*	*Independent non-executive director of the Company*

The following is the full text of the letter of advice from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Donvex 富域資本

Unit 2502, 25/F
Carpo Commercial Building
18–20 Lyndhurst Terrace
Central
Hong Kong

28 July 2023

The Independent Board Committee and the Independent Shareholders of
*China National Building Material Company Limited **

Dear Sir/Madam,

CONNECTED TRANSACTION IN RELATION TO THE MERGER BY ABSORPTION BY NINGXIA BUILDING MATERIALS OF CNBM TECHNOLOGY

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Merger by Absorption. Details of the above are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 28 July 2023 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

As disclosed in the announcement of the Company dated 15 April 2022, on 15 April 2022, Ningxia Building Materials and CNBM Technology entered into a letter of intent of cooperation, pursuant to which Ningxia Building Materials will merge CNBM Technology by absorption through the issuance of A shares by Ningxia Building Materials to all the shareholders of CNBM Technology.

As disclosed in the announcement of the Company dated 28 April 2022, on 28 April 2022, Ningxia Building Materials entered into the Indicative Merger Agreement with CNBM Technology in relation to the Merger by Absorption.

As disclosed in the announcement of the Company dated 28 December 2022, on 28 December 2022, Ningxia Building Materials entered into the First Supplemental Agreement with CNBM Technology in relation to the amendment to certain terms of the Merger by Absorption.

On 27 June 2023, Ningxia Building Materials entered into the Second Supplemental Agreement to agree on certain terms of the Merger by Absorption.

As the Parent directly and indirectly holds approximately 45.0192% of the issued share capital of the Company, it is a substantial shareholder of the Company. CNBM Technology is a subsidiary of the Parent and thus constitutes a connected person of the Company. Accordingly, the Merger by Absorption constitutes a connected transaction of the Company.

As the highest of the relevant percentage ratios under Rule 14.07 of the Listing Rules for the Merger by Absorption is more than 5% but less than 25%, the Merger by Absorption constituted (i) a discloseable transaction of the Company under Chapter 14 of the Listing Rules, which is subject to the announcement requirement; and (ii) a connected transaction of the Company under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement, circular and independent shareholders' approval requirements.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Sun Yanjun, Mr. Liu Jianwen, Mr. Zhou Fangsheng, Mr. Li Jun and Ms. Xia Xue, has been established to advise the Independent Shareholders as to (i) whether the terms of the Merger Agreements are in the ordinary and usual course of business, on normal commercial terms, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole; (ii) whether the Merger by Absorption is fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect to the relevant resolution(s) to approve the Merger by Absorption at the EGM. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, the Parent directly and indirectly held an aggregate of approximately 45.0192% of the issued share capital of the Company. As such, the Parent and its associates will abstain from voting on the relevant resolution(s) to approve the Merger by Absorption at the EGM.

INDEPENDENCE

We did not act as financial adviser to the Group and its respective connected persons in the past two years immediately preceding the Latest Practicable Date.

In the past two years immediately preceding the Latest Practicable Date, we have acted as the independent financial adviser to independent board committee and independent shareholders of the Company for:

(i) the discloseable and connected transaction in relation to the entering into of the subscription agreement with (CNBM) Bengbu Design & Research Institute for Glass Industry Co., Ltd., Triumph Science & Technology Group Company Limited, and Bengbu Huajin Technology Development Co., Ltd., details of which are set out in the circular of the Company dated 13 December 2021;

(ii) the discloseable and connected transaction in relation to (a) the acquisition of equity interests in Hefei Cement Research & Design Institute Corporation Ltd.* (合肥水泥研究設計院有限公司) ("**Hefei Institute**") by Sinoma International Engineering Co., Ltd.* (中國中材國際工程股份有限公司) ("**Sinoma International**") under the asset purchase agreement dated 26 August 2022, (b) the deemed disposal of the Company's equity interests in Sinoma International, and (c) the revision of annual cap for the year ending 31 December 2022 for the purchase of products and services from the Parent and its subsidiaries, details of which are set out in the circular of the Company dated 11 October 2022; and

(iii) the connected transactions in relation to (a) the mutual provision of products and services between the Group and the Parent and its subsidiaries, (b) the procurement of engineering services from the Parent and its subsidiaries, (c) the provision of deposit services to the Company, and (d) the provision of loan to CNBM Chizhou New Materials Co., Ltd.* (池州中建材新材料有限公司), details of which are set out in the circular of the Company dated 25 November 2022 (collectively, the "**Previous Engagements**").

Under the Previous Engagements, we were required to express our opinion on and give recommendations to the independent board committee and independent shareholders of the Company in relation to (i) the entering into of the subscription agreement and the subscription contemplated thereunder; (ii) the acquisition of the equity interests in Hefei Institute, the deemed disposal of the equity interests in Sinoma International, and the revision of annual cap for the purchase of products and services from the Parent and its subsidiaries; and (iii) a series of continuing connected transactions. Apart from the independent financial adviser roles in connection with the Merger by Absorption and the Previous Engagements, we have not acted in any capacity of the Group in the past two years immediately preceding the Latest Practicable Date.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence.

We are independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules and, accordingly, are qualified to advise the Independent Board Committee and the Independent Shareholders in relation to the Merger by Absorption. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the EGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view regarding the Merger by Absorption and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group.

Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with the Merger by Absorption, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

A. Background information of Ningxia Building Materials and CNBM Technology

1. Ningxia Building Materials

Ningxia Building Materials is a subsidiary of the Company and is principally engaged in (i) manufacturing and sales of cement and cement clinker, commercial concrete, aggregates, cementing materials and other building materials; and (ii) provision of intelligent logistics service. Its A shares are listed and traded on Shanghai Stock Exchange (stock code: 600449). Upon Completion, Ningxia Building Materials will remain as a subsidiary of the Company.

The tables below set forth a summary of the consolidated audited financial information of Ningxia Building Materials and its subsidiaries (collectively, the "**Ningxia Building Materials Group**") extracted from the annual reports of Ningxia Building Materials for the year ended 31 December 2021 ("**FY2021**") and the year ended 31 December 2022 ("**FY2022**") disclosed on the website of Shanghai Stock Exchange:

	FY2021 *RMB'000* (Audited)	FY2022 *RMB'000* (Audited)
Revenue	5,782,741	8,657,625
Profit after taxation	867,231	578,390

	As at 31 December 2021 *RMB'000* (Audited)	As at 31 December 2022 *RMB'000* (Audited)
Total assets	9,251,453	10,075,202
Total liabilities	1,965,879	2,640,069
Net assets	7,285,574	7,435,133

Revenue

The revenue of Ningxia Building Materials Group increased from approximately RMB5,783 million for FY2021 to approximately RMB8,658 million for FY2022, which was mainly due to the increase in the revenue of digital logistics services during FY2022 as a result of the promotion of the digital logistics services to the independent third parties by Ningxia Building Materials Group.

Profit after taxation

The profit after tax of Ningxia Building Materials Group decreased from approximately RMB867 million for FY2021 to approximately RMB578 million for FY2022, which was mainly attributable to the decrease in the gross profit during FY2022 as a result of the increment in the cost of coal, a principal raw material for the production of the cement.

Total assets

The total assets of Ningxia Building Materials Group increased from approximately RMB9,251 million as at 31 December 2021 to approximately RMB10,075 million as at 31 December 2022, which was mainly due to the increase in the trade receivable as a result of the increase in the revenue during FY2022.

Total liabilities

The total liabilities of Ningxia Building Materials Group increased from approximately RMB1,966 million as at 31 December 2021 to approximately RMB2,640 million as at 31 December 2022, which was mainly due to the increase in the trade payables.

Net assets

The net assets of Ningxia Building Materials Group increased from approximately RMB7,286 million as at 31 December 2021 to approximately RMB7,435 million as at 31 December 2022, which is mainly due to the net effect of (i) the increase in the profit after tax for FY2022; and (ii) the distribution of dividends to the shareholders of Ningxia Building Materials.

2. CNBM Technology

CNBM Technology is an indirect subsidiary of the Parent and principally engaged in value-added distribution service of enterprise-level information and communication technology ("**ICT**") products, cloud computing and digital services. Its shares are listed and traded on National Equities Exchange and Quotations (stock code: 834082).

The tables below set forth a summary of the consolidated audited financial information of CNBM Technology and its subsidiaries (collectively, the "**CNBM Technology Group**") extracted from the annual reports of CNBM Technology for FY2021 and FY2022 disclosed on the website of The National Equities Exchange and Quotations:

	FY2021 *RMB'000* (Audited)	FY2022 *RMB'000* (Audited)
Revenue	18,008,551	18,715,149
Profit after taxation	314,980	89,201

	As at 31 December 2021 *RMB'000* (Audited)	31 December 2022 *RMB'000* (Audited)
Total assets	12,455,619	14,330,793
Total liabilities	10,387,848	12,361,383
Net assets	2,067,771	1,969,410

Revenue

The revenue of CNBM Technology Group increased from approximately RMB18,009 million for FY2021 to approximately RMB18,715 million for FY2022, which was mainly due to the increase in the revenue of cloud computing.

Profit after taxation

The profit after tax of CNBM Technology Group decreased from approximately RMB315 million for FY2021 to approximately RMB89 million for FY2022, which was mainly attributable to the increase in the estimated credit loss (the "**ECL**") during FY2022 as a result of the increment in the balance of the trade receivables of CNBM Technology Group as at 31 December 2022 and the provision of the ECL for the trade receivables due from a customer. The ECL for such customer was made due to the significant decrease in the revenue for FY2022 and the deterioration of the profitability in the same financial year of such customer. We are of the view that the provision of the ECL is a one-off incident and the deterioration of the financial performance of CNBM Technology Group for FY2022 does not indicate a permanent downturn of the profitability of CNBM Technology Group.

Total assets

The total assets of CNBM Technology Group increased from approximately RMB12,456 million as at 31 December 2021 to approximately RMB14,331 million as at 31 December 2022, which was mainly due to the increase in the trade receivable.

Total liabilities

The total liabilities of CNBM Technology Group increased from approximately RMB10,388 million as at 31 December 2021 to approximately RMB12,361 million as at 31 December 2022, which was mainly due to the increase in the long-term borrowings.

Net assets

The net assets of CNBM Technology Group decreased from approximately RMB2,068 million as at 31 December 2021 to approximately RMB1,969 million as at 31 December 2022, which is mainly due to the net effect of (i) the increase in the profit after tax for FY2022; (ii) the distribution of dividends to the shareholders of CNBM Technology; and (iii) the decrease in the non-controlling interests during FY2022 as a result of the acquisition of non-controlling interests by CNBM Technology.

B. The Merger by Absorption

1. Background

As disclosed in the announcement of the Company dated 15 April 2022, on 15 April 2022, Ningxia Building Materials and CNBM Technology entered into a letter of intent of cooperation, pursuant to which Ningxia Building Materials will merge CNBM Technology by absorption through the issuance of A shares by Ningxia Building Materials to all the shareholders of CNBM Technology.

As disclosed in the announcement of the Company dated 28 April 2022, on 28 April 2022, Ningxia Building Materials entered into the Indicative Merger Agreement with CNBM Technology in relation to the Merger by Absorption.

As disclosed in the announcement of the Company dated 28 December 2022, on 28 December 2022, Ningxia Building Materials entered into the First Supplemental Agreement with CNBM Technology in relation to the amendment to certain terms of the Merger by Absorption.

On 27 June 2023, Ningxia Building Materials entered into the Second Supplemental Agreement to agree on certain terms of the Merger by Absorption.

2. Reasons for and benefits of the Merger by Absorption

(1) Introduction of digital transformation service provided by CNBM Technology Group and its track record

CNBM Technology is a leading provider of innovative solutions in relation to the digital transformation services for the enterprises in the building materials industry. The following sets out the details of the digital transformation services to be provided by CNBM Technology Group to its customers:

(i) establishing a comprehensive online platform including (a) push notification on any updates of operational data; (b) real-time auto alert system on the manufacturing process; and (c) review of periodical report in terms of the business operation to facilitate the monitoring of the customers' daily activities;

(ii) implementing enterprise management applications by gathering and integrating all the operational data derived from various departments of the customers (such as procurement department, manufacturing department, sales department, human resources department, and finance department) through artificial intelligence for the management's decision-making in the daily business operation, including but not limited to the sales of products and procurement of materials; and

(iii) identifying any safety risks to avoid any accidents at the workplace through artificial intelligence algorithms, including but not limited to (a) the assessment of the condition of the manufacturing equipment based on its indicators; (b) the alert of any possible danger such as smoke, fire, or employee's injuries via smoke detection, temperature sensors, and facial recognition technology; and (c) the installation of equipment to monitor high-risk operational process through mobile monitoring equipment.

Based on the above, the digital transformation services to be provided by CNBM Technology Group will be able to improve the production efficiency and enhance the operational safety of the customers.

CNBM Technology Group has demonstrated a proven track record of the provision of digital transformation solutions. For example, CNBM Technology Group has provided digital transformation solutions to two cement companies located in Fujian Province and Zhejiang Province in the PRC to resolve the limited external connectivity of the operational data in various operating systems and integrate all the information from different systems.

(2) Synergy effect in the operation of the cement-related business

The Group is principally engaged in the manufacturing and sales of cement and cement clinker, commercial concrete, aggregates, cementing materials and other building materials.

Given that (i) the Group previously involved little technology regarding digital transformation during the manufacturing process of the cement; (ii) the implementation of digital transformation can enhance the production efficiency and improve the workplace safety of cement-related business of the Group; and (iii) the companies in building materials industry are encouraged by the government authorities of the PRC to implement digital transformation during the manufacturing process, we are of the view that the Merger by Absorption has created a synergy effect on the cement and other building materials business of the Group. On one hand, leveraging its extensive experience in providing digital transformation solutions, CNBM Technology Group can provide technical support on the development, installation and the implementation of the cement and other building materials manufacturing online platform. On the other hand, facilitated by the cement and other building materials manufacturing online platform, the Group is able to enhance overall business operations via artificial intelligence, thus saving time and manpower.

(3) Improvement in the profitability of the Group

Based on the profit forecast as assessed under the section headed "PRINCIPAL FACTORS AND REASONS CONSIDERED – B. The Merger by Absorption – 5. Assessment on the valuation of CNBM Technology – (4) Application of the income approach – Estimated net profit", we consider that the Merger by Absorption will improve the profitability of the Group.

(4) Conclusion

Based on the above, considering (i) the proven track record of the provision of digital transformation services of CNBM Technology Group; (ii) the synergy effect in the cement and other building materials business of the Group; and (iii) the improvement in the profitability of the Group, we are of the view that the Merger by Absorption is fair and reasonable.

3. The Merger Agreements

(1) Principal terms

Date

The following table sets out the dates of the entering into of each agreement under the Merger Agreements:

Merger Agreements	Dates
Indicative Merger Agreement	28 April 2022
First Supplemental Agreement	28 December 2022
Second Supplemental Agreement	27 June 2023

Parties

(i) Ningxia Building Materials, as the merging entity; and

(ii) CNBM Technology, as the merged entity

Merger by Absorption

After the Completion, Ningxia Building Materials will become the subsisting entity and will inherit and undertake all the assets, liabilities, business, contracts, licenses, personnel and all other rights and obligations of CNBM Technology. CNBM Technology will eventually be deregistered.

Consideration Value

The Consideration Value is approximately RMB2,294.3 million, which is determined with reference to (i) the appraised value of CNBM Technology of approximately RMB2,333.1 million in a valuation report in relation to the valuation of the entire equity interests in CNBM Technology (the "**Valuation Report**") issued by the Valuer which has been filed with the competent authority of state-owned assets supervision and administration; and (ii) the amount of cash dividends distributed by CNBM Technology to its shareholders of approximately RMB38.8 million as at 25 May 2023, being the ex-dividend date of CNBM Technology.

The Consideration Value will be satisfied by A shares to be issued by Ningxia Building Materials in exchange for shares in CNBM Technology held by all its shareholders to be cancelled, details of which are set out as follows:

Nature and par value of the Consideration Shares:	Common shares in Ningxia Building Materials denominated in RMB and listed on Shanghai Stock Exchange, with a par value of RMB1.00 each.
Issue Price:	RMB13.21 per share, as determined at a price in accordance with: (i) the average trading price of A shares in Ningxia Building Materials in the 20 trading days prior to the Pricing Reference Date (i.e., 28 December 2022) pursuant to Administrative Measures for the Material Asset Reorganizations of Listed Companies (上市公司重大資產重組管理辦法)* (the "**Administrative Measures**") issued by CSRC; and (ii) the audited net assets attributable to the shareholders of Ningxia Building Materials per share as at 31 December 2021, which is based on the latest audited net assets immediately preceding the date of the entering into of the First Supplemental Agreement (subject to adjustment due to the distribution of dividends)

Adjustment mechanism of the Issue Price:	If there is any ex-right or ex-dividend event, such as distribution of dividend, bonus issue, and transfer to share capital from capital reserve by Ningxia Building Materials, between the Pricing Reference Date and the date of registration of all equity interests at the implementation of Merger by Absorption, the Issue Price will be adjusted accordingly.
Number of Consideration Shares to be issued ("**Issue Amount**"):	173,675,807 Consideration Shares, which is calculated in accordance with the following formula: Issue Amount = Consideration Value ÷ Issue Price. The issue of Consideration Shares is subject to the approval by the shareholders of Ningxia Building Materials on a general meeting, the review by Shanghai Stock Exchange and filing with CSRC.
Exchange ratio:	1:1.1628 (i.e., 1 share in CNBM Technology in exchange for 1.1628 shares in Ningxia Building Materials). The Exchange Ratio is calculated according to the following formula: Exchange Ratio = Consideration Value ÷ total number of issued shares in CNBM Technology ÷ Issue Price. The calculation result will be rounded to 4 decimal places.
Treatment of shares with restrictive rights:	The shares in CNBM Technology with restrictive rights will all be exchanged to Consideration Shares at the time of share exchange, and the existing restrictive rights attached to the shares in CNBM Technology will continue to be effective and attached to the corresponding Consideration Shares as exchanged.

Basis of the Consideration Value

The Consideration Value of approximately RMB2,294.3 million was determined based on (i) the Appraised Value of approximately RMB RMB2,333.1 million as at the Valuation Reference Date with reference to the Valuation Report issued by the Valuer; and (ii) the amount of cash dividends distributed by CNBM Technology to its shareholders of approximately RMB38.8 million as at 25 May 2023, being the ex-dividend date of CNBM Technology.

Conditions of Effectiveness of the Merger Agreements

The Merger Agreements will take effect upon the date of fulfilment of all of the following conditions:

(i) signing and stamping by both parties to the Merger Agreements;

(ii) filing of the asset valuation reports in respect of the Proposed Transactions with the competent authority of state-owned assets supervision and administration;

(iii) approval of the Proposed Transactions by the competent authority of state-owned assets supervision and administration;

(iv) approval of the Proposed Transactions by the competent decision-making bodies of Ningxia Building Materials;

(v) approval of the Merger by Absorption by CNBM Technology's competent decision-making bodies;

(vi) approval of the Cement Assets Restructuring by Tianshan Cement's competent decision-making bodies;

(vii) approval of the Proposed Transactions by the competent decision-making bodies of the Company;

(viii) the signing and the taking effect of the indicative asset restructuring agreement dated 28 April 2022 entered into between Ningxia Building Materials and Tianshan Cement in connection with the Cement Assets Restructuring;

(ix) waiver in respect of the Company's Parent and its concert parties' obligation to make an offer to acquire shares as a result of the Proposed Transactions being approved at Ningxia Building Materials' shareholders' meeting;

(x) approval of the termination of CNBM Technology's listing on The National Equities Exchange and Quotations by CNBM Technology's shareholders' meeting, filing to National Equities Exchange and Quotations Co., Ltd. according to regulations, and performance of the relevant procedures;

(xi) approval or "no-further-review" decision in connection with the undertaking concentration assessment conducted by the Anti-Monopoly Bureau of the State Administration for Market Regulation with respect to the Proposed Transactions (if needed);

(xii) approval of the Proposed Transactions by CSRC; and

(xiii) other necessary prior sanction, approval or consent as required by applicable law, regulations and regulatory authorities in respect of the Proposed Transactions.

As at the Latest Practicable Date, Conditions (i), (ii) and (xi) have been satisfied, and the board approval in Conditions (iv), (v), (vi), and (vii) have been obtained.

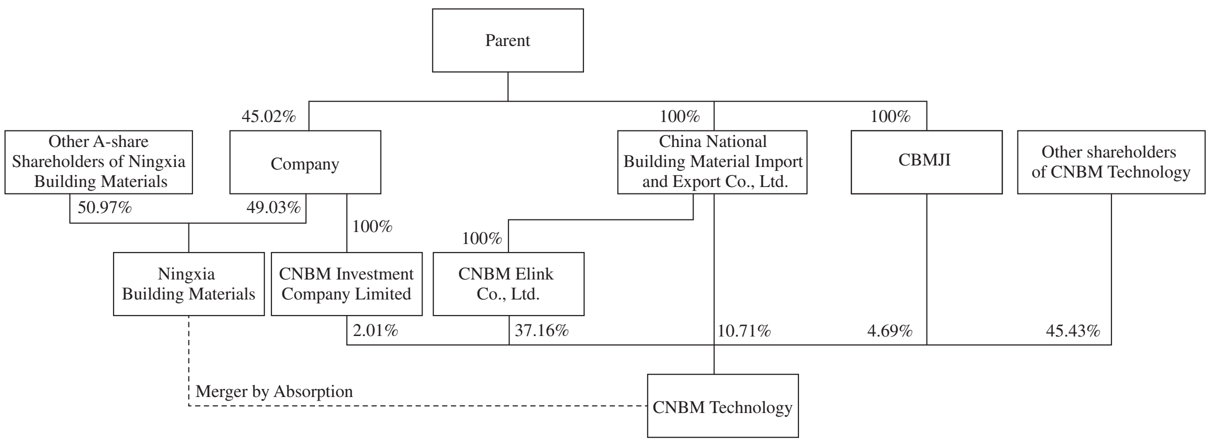
Completion

After the Completion Date, the legal capacity of CNBM Technology will be deregistered. Ningxia Building Materials will inherit and undertake all the assets, liabilities, business, contracts, licenses, personnel and all other rights and obligations of CNBM Technology.

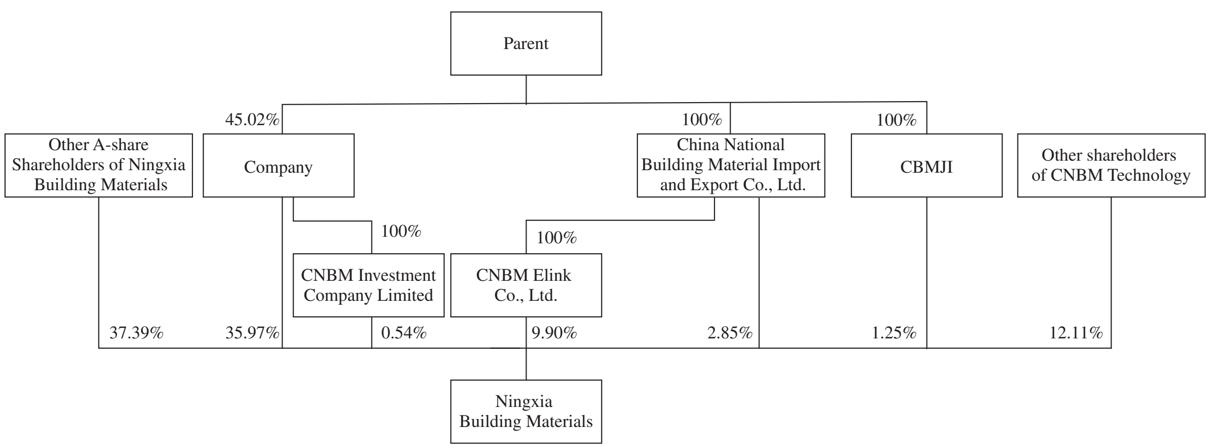
Shareholding structure

The following diagrams show the shareholding structure of Ningxia Building Materials as at the Latest Practicable Date and upon the Completion:

Shareholding structure of Ningxia Building Materials as at the Latest Practicable Date



Shareholding structure of Ningxia Building Materials upon the Completion



Note: The discrepancy between 100% and the arithmetic sum of the shareholding in Ningxia Building Materials as shown in the diagram above is due to rounding.

The above shareholding structure is based on the assumptions that (i) between the Latest Practicable Date and the Completion Date, the shareholding by the Company of Ningxia Building Materials remains unchanged; and (ii) the Put Option and the Cash Option are both not exercised by the Eligible Shareholders for the Put Option and the Eligible Shareholders for the Cash Option.

Upon the Completion, since the number of shares in Ningxia Building Materials held by the Company remained unchanged, the Merger by Absorption will cause a dilution effect to the shareholding of the Company in Ningxia Building Materials. The shareholding percentage of the Company in Ningxia Building Materials will decrease from 49.03% to 35.97%.

(2) Our assessment on the Merger Agreements

Issue Price

We are advised by the management of the Company that the Issue Price of RMB13.21 is determined (i) pursuant to the requirements of the Administrative Measures; and (ii) at a price not lower than the audited net assets attributable to the shareholders of Ningxia Building Materials per share as at 31 December 2021 (as adjusted taking into account the distribution of cash dividend) ("**Ningxia Building Materials NAV Per Share**").

We have reviewed Article 45 of the Administrative Measures and noted that the Issue Price should not be lower than 90% of the benchmark price (the "**Applicable Issue Price**"), which is determined with reference to the average trading price of 20, 60, or 120 trading days immediately preceding the publication date of board minutes in relation to the First Supplemental Agreement on 28 December 2022.

For our due diligence purpose, we have reviewed the calculation of Ningxia Building Materials NAV Per Share. We concurred with the calculation made by the management of the Company.

We have also reviewed the average prices of the issued shares of Ningxia Building Materials in 20, 60, and 120 trading days prior to the Issue Price Reference Date. The following table sets forth the comparison between the Issue Price and the Applicable Issue Price:

		Trading days prior to the Issue Price Reference Date		
		20	60	120
		RMB	*RMB*	*RMB*
Average price	a	12.59	12.22	12.23
Applicable Issue Price	b=a*90%	11.33	11.00	11.01

The following table sets out the comparison among the Issue Price, the lowest of the Applicable Issue Price, and Ningxia Building Materials NAV Per Share:

Issue Price *RMB*	Lowest Applicable Issue Price *RMB*	Ningxia Building Materials NAV Per Share *(Note)* *RMB*
13.21	11.00	13.21

Note: Ningxia Building Materials NAV Per Share has been adjusted given that Ningxia Building Materials has distributed (i) cash dividends of RMB5.4 (tax inclusive) for every 10 shares of Ningxia Building Materials to all its shareholders in 2022 according to the resolution passed in its general meeting held on 13 April 2022; and (ii) cash dividends of RMB3.9 (tax inclusive) for every 10 shares of Ningxia Building Materials to all its shareholders in 2023 according to the resolution passed in its general meeting held on 13 April 2023.

As shown in the above table, the Issue Price is not lower than either Lowest Applicable Issue Price or Ningxia Building Materials NAV Per Share. Therefore, we are of the view that the Issue Price (i) complies with the requirements under the Administrative Measures and the basis of determination of the Issue Price as stated in the Merger Agreements; and (ii) is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Issue Amount

As analyzed under the sections headed "PRINCIPAL FACTORS AND REASONS CONSIDERED – B. The Merger by Absorption – 5. Assessment on the valuation of CNBM Technology" and "PRINCIPAL FACTORS AND REASONS CONSIDERED – B. The Merger by Absorption – 3. The Merger Agreements – (2) Our assessment on the Merger Agreements – Issue Price", respectively, we are of the view that both the Consideration Value and the Issue Price are fair and reasonable. Therefore, having reviewed the calculation of the Issue Amount and recalculated it, although the Issue Amount as stated in the Merger Agreements is different from its arithmetic quotient due to rounding, we consider that the Issue Amount is fair and reasonable.

Exchange Ratio

Considering that the Issue Amount is fair and reasonable and having reviewed the calculation of the Exchange Ratio and recalculated it, we are of the view that the Exchange Ratio is fair and reasonable.

4. The Compensation Agreement

The Compensation Agreement has been entered into among Ningxia Building Materials and the Compensation Obligors in connection with the Merger by Absorption and in accordance with, among others, the requirements under the Administrative Measures, and will take effect upon the Merger Agreements becoming effective.

(1) Principal terms of the Compensation Agreement

Profit undertaking and compensation

The following table sets out the profit undertaking of the Profit Undertaking Assets to be undertaken by the Compensation Obligors during the Compensation Period:

	For the year ending 31 December			
	2023	**2024**	**2025**	**2026 (If applicable)**
	RMB million	*RMB million*	*RMB million*	*RMB million*
Approximate committed net profit attributable to the shareholders of the company, excluding any income or loss of the Profit Undertaking Assets generated by activities outside the ordinary and usual course of business	231.25	294.69	336.25	365.71

Method of calculation

Ningxia Building Materials shall engage an auditing firm to issue a specific audit report regarding the actual net profit with respect to the Profit Undertaking Assets after the end of each Applicable Period.

In the event that the actual net profit is lower than the committed net profit during each Applicable Period, the shortfall between the actual net profit and the committed net profit should be made by the Compensation Obligors by means of Compensation Shares. Regarding the calculation of the compensation amount to be compensated by each Compensation Obligator, please refer to the section headed "2. MERGER BY ABSORPTION – Compensation Agreement – Profit undertaking and compensation – (1) Method of calculation" under the Letter from the Board.

Where compensation is to be satisfied by issuing Compensation Shares:

(i) the number of Compensation Shares to be compensated by each Compensation Obligor shall be calculated by dividing the relevant compensation amount by the Issue Price;

(ii) if the compensation amount is less than 0, the value shall be taken to be 0 and the Compensation Shares compensated shall not be reversed. If the calculated number of Compensation Shares has decimals, it shall be rounded up to the nearest integer;

(iii) if there is any ex-right event, such as bonus issue, transfer to share capital from capital reserve and distribution of stock dividend, by Ningxia Building Materials during the Compensation Period, the number of Compensation Shares to be compensated shall be adjusted accordingly; and

(iv) if Ningxia Building Materials distributes cash dividend during the Compensation Period, the cash dividend attributable to the Compensation Shares (if there are any) in each relevant Applicable Period shall be returned to Ningxia Building Materials.

Timing for effectuating the compensation

In the event that compensation is required to be made pursuant to the above arrangements, Ningxia Building Materials shall, within 30 business days of the issue of the relevant specific audit report, convene a board meeting and give notice for convening a shareholders' meeting to approve the repurchase of the relevant Compensation Shares at a total consideration of RMB1 and the cancellation of such Compensation Shares.

If such proposal is approved at Ningxia Building Materials' shareholders' meeting, Ningxia Building Materials shall, within 5 business days of the announcement of the relevant resolutions, give written notice to the Compensation Obligors regarding the number of Compensation Shares to be repurchased. The Compensation Obligors should, within 5 business days of the receipt of such notice, collaborate with Ningxia Building Materials in the cancellation of the relevant Compensation Shares.

If such proposal is not approved at Ningxia Building Materials' shareholders' meeting or otherwise cannot be effectuated for any other reasons, Ningxia Building Materials shall, within 5 business days of the announcement of the relevant resolutions, give written notice to the Compensation Obligors regarding endowment. The Compensation Obligors should, within 30 business days of the receipt of such notice, endow the relevant Compensation Shares to the shareholders of Ningxia Building Materials (other than the Compensation Obligors themselves with respect to their respective holding of the Consideration Shares) whose names appear on Ningxia Building Materials' register of members on the relevant record date according to the proportion of their respective shareholdings in the remaining share capital of Ningxia Building Materials after deducting the Compensation Obligors' respective holding of Consideration Shares on such record date.

The Compensation Obligors have undertaken to waive the voting rights attached to and the distributions attributable to the relevant Compensation Shares from the date of confirmation of the number of such Compensation Shares until such Compensation Shares are cancelled or endowed to the other shareholders of Ningxia Building Materials (as the case may be).

Impairment compensation

Upon expiry of the Compensation Period, Ningxia Building Materials shall engage an auditing firm to carry out impairment test on the Profit Undertaking Assets and issue a specific audit report.

If the following formula has been satisfied, additional compensation shall be made by each Compensation Obligor by means of returning additional Compensation Shares:

$$\frac{\text{Impairment amount as at the end of the Compensation Period}}{\text{Consideration Value}} > \frac{\text{Total number of Compensation Shares compensated during the Compensation Period}}{\text{Total number of Consideration Shares}}$$

Regarding the calculation of the additional Compensation Shares, please refer to the section headed "2. MERGER BY ABSORPTION – Compensation Agreement – Impairment compensation" under the Letter from the Board.

(2) Our Assessment on the Compensation Agreement

For our due diligence purpose, we have carried out the following assessment:

Committed net profit under the Compensation Agreement

We are advised by the management of the Company that the committed net profit under the Compensation Agreement is calculated based on (i) the respective forecast net profit of CNBM Technology and each of its subsidiary (the "**CNBM Technology Subsidiaries**") as shown in their respective valuation reports; multiplied by (ii) the shareholding percentage of CNBM Technology in each of CNBM Technology Subsidiary.

The following table sets out the breakdown of the committed net profit of CNBM Technology and its subsidiaries during the Compensation Period:

Entity	Shareholding interest of CNBM Technology in each CNBM Technology Subsidiary	Committed net profit for the year ending 31 December			
		2023	**2024**	**2025**	**2026 (If applicable)**
	%	*RMB million*	*RMB million*	*RMB million*	*RMB million*
CNBM Technology	–	154.02	200.13	228.99	245.32
CNBM Xinyun Smart Technology Limited* (中建材信雲智聯科技有限公司) ("**Company A**")	100	11.69	27.32	38.65	50.96
CNBM Technology (Hong Kong) Limited (中建材信息技術(香港)有限公司) ("**Company B**")	100	55.40	55.35	55.30	55.25
Beijing Yuanyi Technology Service Co., Ltd.* (北京元億科技服務有限公司) ("**Company C**")	51	7.56	9.27	10.77	11.84
Proaxia Information Technology (Beijing) Limited* (博瑞夏信息技術(北京)有限公司) ("**Company D**")	65	2.58	2.62	2.54	2.34
Total		231.25	294.69	336.25	365.71

We have reviewed the valuation report of CNBM Technology and its subsidiaries and noted that the forecast net profit of each of CNBM Technology and its subsidiary as shown in their respective valuation reports is the same as their respective forecast net profit used to determine the committed net profit during the Compensation Period.

We have reviewed the basis and the calculation of the committed net profit of CNBM Technology and its subsidiaries and consider the basis and the calculation are fair and reasonable, details of which are stated under the section headed:

(i) "PRINCIPAL FACTORS AND REASONS CONSIDERED – B. The Merger by Absorption – 5. Assessment on the valuation of CNBM Technology – (4) Application of the income approach – (a) Appraised value of the net operating assets – Estimated net profit" in this letter (for CNBM Technology); and

(ii) "PRINCIPAL FACTORS AND REASONS CONSIDERED – B. The Merger by Absorption – 5. Assessment on the valuation of CNBM Technology – (4) Application of the income approach – (c) Appraised value of the long-term investment – (i) Appraised value of the net operating assets – Estimated free cash flow" in this letter (for CNBM Technology Subsidiary).

As such, we are of the view that the committed net profit under the Compensation Agreement is fair and reasonable.

Method of calculation

We are advised by the Directors that the method of calculation is based on the requirements under Guidelines for Application of Regulatory Rules – Listing (No. 1)* (監管規則適用指引–上市類第1號) issued by CSRC (the "**Guidelines**"). We have reviewed the Guidelines and noted that the formula and the requirements of the compensation under the Guidelines are the same as those under the Compensation Agreement. As such, we consider that the method of calculation is fair and reasonable.

Repurchase of the Compensation Shares when the requirements of the profit undertaking are triggered

Pursuant to the Compensation Agreement, the compensation in respect of each Applicable Period shall first be satisfied by the Compensation Shares. In the event that compensation is required to be made pursuant to the above arrangements and satisfied by Compensation Shares, Ningxia Building Materials should give notice for convening a shareholders' meeting to approve the repurchase of the relevant Compensation Shares at a total consideration of RMB1 and the cancellation of such Compensation Shares.

Given that the Compensation Shares would be repurchased at a very insignificant amount (i.e., RMB1) by Ningxia Building Materials under the circumstance that the requirements of the profit undertaking are triggered according to the Compensation Agreement, the financial position of the Group would not be materially and adversely impacted. As such, we are of the view that the arrangement of the repurchase of the Compensation Shares at a consideration of RMB1 (when the requirements of the profit undertaking are triggered) is fair and reasonable.

In addition, if the aforementioned repurchase cannot be effectuated for any reasons, the Compensation Obligors shall endow the relevant Compensation Shares to shareholders of Ningxia Building Materials.

The above endowment (when the requirements of the profit undertaking are triggered) would increase the shareholding of the shareholders of Ningxia Building Materials in the same without incurring any cost by the aforesaid shareholders. As such, we are of the view that the endowment (when the requirements of the profit undertaking are triggered) is fair and reasonable.

Impairment test compensation

Additional compensation shall be made by each Compensation Obligor by means of additional Compensation Shares if the formula as stated under the section headed "PRINCIPAL FACTORS AND REASONS CONSIDERED – B. The Merger by Absorption – 4. The Compensation Agreement – (1) Principal terms of the Compensation Agreement - Impairment compensation" in this letter has been satisfied.

We consider that an impairment incurred in the Profit Undertaking Assets should also be treated as a shortfall between the committed and actual financial performance of the Profit Undertaking Assets because such impairment indicates that the profitability of the Profit Undertaking Assets does not meet the expectation as undertaken in the forecasts. As such, we are of the view that the impairment test compensation (i) can guarantee the minimum return of the equity shares of CNBM Technology; and (ii) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conclusion

Based on the above, we consider that the terms of the Compensation Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5. Assessment on the valuation of CNBM Technology (the "Valuation")

In assessing the fairness and reasonableness of the Valuation, we have taken into the following factors:

(1) The Valuer

The Company has engaged Beijing Zhuoxindahua Appraisal Company Limited* (北京卓信大華資產評估有限公司) to perform the valuation in relation to the entire equity interest of CNBM Technology (the "**Valuation**") and prepare the Valuation Report.

In respect of Valuer's experience, we have requested and obtained a list from Valuer demonstrating their track record of valuation in relation to the transaction principally engaged in the similar business to that of CNBM Technology. Based on our review, we understand that the Valuer has accumulated experience in evaluating companies whose business is similar to that of CNBM Technology.

We have reviewed the qualification on the valuation of assets of the Valuer and understand that the Valuer is certified with professional qualification required to perform the valuation on CNBM Technology.

In respect of the independence of the Valuer, the Valuer confirms that it is independent from the Company.

We have also reviewed the scope of work of the Valuer and did not identify any limitations on the scope of work which might adversely impact on the degree of assurance in the Valuation.

Based on the above, we are of the view that the scope of work of the Valuer is appropriate and the Valuer is qualified and competent to perform the Valuation.

(2) Valuation methodology

We have reviewed the Valuation Report and discussed with the Valuer regarding the following assumption made and methodology adopted for the Valuation. We note that the Appraised Value was determined based on the income approach and understand that:

(i) the Appraised Value was not determined based on the asset-based approach since the asset-based approach can only reflect the value of each individual asset of CNBM Technology but cannot reflect the value of the integration effect regarding the combination of each individual asset;

(ii) the Appraised Value was not determined based on the market approach since there is very limited publicly available information in relation to the merger and acquisition of the companies whose business is similar to CNBM Technology; and

(iii) the Appraised Value was determined based on the income approach since income approach can reflect the value of (a) the intangible assets which are not included in the respective balance sheets of CNBM Technology Group; and (b) the integration effect regarding the combination of each individual asset, including but not limited to preferential policies enjoyed by CNBM Technology, qualifications for the operation of its business, capability of research and development, and management team.

After considering the reasons above, we are of the view that the valuation methodology adopted by the Valuer is reasonable and acceptable for the Valuation.

(3) Valuation assumptions

We noted that the Valuer has made the following assumptions for the Valuation:

(a) Basic assumptions

(i) The transaction assumption assumes that the appraised entity and the assets and liabilities within the scope of appraisal are already in the process of transaction, whose valuation conducted by the valuer is based on a comparable market in accordance with the conditions of transaction.

(ii) The open-market assumption assumes that both parties to the transaction of assets traded or proposed to be traded in the market are of equal status and have opportunities and time to get adequate market information so as to make rational judgments on the function, usage and trading price of the assets.

(iii) Going-concern assumption assumes that the appraised entity continues to operate as going concern after the Valuation Reference Date.

(iv) The continuous use of assets assumption assumes that the assets under valuation will continue to be used legally and effectively according to their way of usage, scale of use, frequency of use, circumstances of usage and other conditions, and there will be no significant change in the foreseeable service life.

(b) Special assumptions

(i) It is assumed that there will be no significant changes in the prevailing applicable laws, regulations and policies and the macro-economic environment of the PRC, and the political, economic and social environment in the region where the parties to the transaction operate.

(ii) It is assumed that there will be no significant changes in the national credit interest rate, exchange rate, tax base and tax rate, and levies, etc. related to the appraised unit after the Valuation Reference Date.

(iii) It is assumed that the industry of the appraised entity maintains a stable development trend and there is no significant change in industrial policies, management systems and relevant regulations.

(iv) It is assumed that there are no other force majeure and unforeseen factors that cause significant adverse effects on the enterprise after the Valuation Reference Date.

(v) It is assumed the accounting policies adopted by the appraised unit after the Valuation Reference Date are basically consistent with the accounting policies adopted in the preparation of the valuation report in the material aspects.

(vi) It is assumed that the existing management methods, management standards, the scope of operation and operation mode are consistent with the current circumstance.

(vii) It is assumed that the operator of the appraised unit is a responsible personnel for the business operation and that the management personnel of the appraised unit has the ability to undertake such office.

(viii) It is assumed that the acquisition and construction of the assets involved in the appraised unit comply with relevant national laws and regulations.

(ix) It is assumed that the cash inflow and outflow of the appraised unit is stable after the Valuation Reference Date.

(x) It is assumed that the contracts and agreements provided by the appraised unit that are being performed or to be performed are valid and will be completed as scheduled.

(xi) It is assumed that the trademark authorization contracts of the appraised unit can be renewed for future use according to the current circumstance after such contracts expire.

(xii) It is assumed that the appraised unit can continue to enjoy corresponding tax preferential policies within the specified period in the future, including but not limited to (a) Company A, Company B, and Company D can enjoy the income-tax-related preferential policies of the deduction of research and development expenses; (b) Company D can enjoy the value-added-tax-related preferential policies of the calculation of input value-added tax ("**VAT**") as well as the refund of VAT on the sale of software products.

(xiii) It is assumed that the assets leased by the appraised unit for operation can be renewed normally and used continuously after the expiry of the term of the lease.

(xiv) All licenses, usage permits, consent letters, or other legal or administrative authorization documents issued by relevant regional or national government authorities or organizations for using the assets which are adopted for valuation in the valuation report will be used within the validity period and in compliance with applicable rules as at the Valuation Reference Date; it is assumed that these licenses can be updated or renewed after the expiration of the validity period.

After considering the above, we are of the view that the assumptions adopted by the Valuer for the Valuation are fair and reasonable.

(4) Application of the income approach

The Appraised Value under income approach was based on the following items: (i) appraised value of the net operating assets; (ii) appraised value of the net non-operating assets; (iii) appraised value of the long-term investment; and (iv) interest-bearing liabilities.

Components	**Appraised value**
	RMB'000
Appraised value of the net operating assets	6,877,246
Appraised value of the net non-operating assets	886,522
Appraised value of the long-term investment	1,223,039
Less: Interest-bearing liabilities	(6,653,665)
Appraised value	2,333,142

(a) Appraised value of the net operating assets

In our assessment of the appraised value of the net operating assets, we noted that the Valuer has applied the discounted cash flow method to estimate the net present value of the projected free cash flow of the business operation at a discount rate to calculate the appraised value of net operating assets.

The appraised value of the net operating assets is based on the net present value of the projected free cash flow, which is further determined with reference to: (i) the estimated net profit; (ii) the estimated depreciation and amortization cost; (iii) the estimated interest expense after income tax; (iv) the estimated capital expenditure; and (v) the estimated changes in the working capital.

Discount rate

In estimating the discount rate for the income approach, the Valuer has adopted the weighted average cost of capital to compute the cost of capital as the discount rate. We understand from the Valuer that the discount rate of approximately 9.22% was adopted, which is determined with reference to the cost of equity and cost of debt.

Cost of debt is determined by the loan prime rate ("**LPR**") on the bank loans for one year immediately preceding the Valuation Reference Date as announced by the People's Bank of China ("**PBoC**").

Cost of equity is determined by the following:

(i) risk-free rate is the average of yield on PRC government bonds which will expire after 10 or more years from the Valuation Reference Date;

(ii) market risk premium is the level of risk-reward that equity investors in the stock market would require compensating them for the level of risk undertaken versus a risk-free rate. The figure is determined based on the yield of Shanghai Stock Exchange Composite Index and Shenzhen Stock Exchange Composite Index from 1991 to 2021;

(iii) levered beta is determined with reference to (a) the average unlevered beta of three comparable companies which are listed on the PRC stock market and engaged in sales of ICT products and provision of digital services; (b) debt-to-equity ratio (calculated based on total interest-bearing liabilities divided by the market value of the shares) of the comparable companies; and (c) the applicable enterprise income tax rate of CNBM Technology; and

(iv) enterprise-specific risk adjustment factor is determined based on the operating risk, operating scale, life cycle, major customers, and reliance on suppliers of CNBM Technology.

For our purpose of due diligence, we have assessed the basis and the calculation of the discount rate as follows:

(i) we have reviewed the LPR on the bank loans for one year in the website of the PBoC and noted that the cost of debt used in the Valuation is the same as the LPR on the bank loans for one year immediately preceding the Valuation Reference Date as announced by the PBoC;

(ii) the nominal risk-free rate is determined with reference to the average of yield on PRC government bonds which will expire after 10 or more years from the Valuation Reference Date, which is determined with reference to the list of PRC government bonds extracted from the database of Wind Information Co., Ltd. (“**Wind Database**”), a leading company in the provision of financial data, information, and software services in the PRC;

(iii) we are advised by the Valuer that the market risk premium is calculated based on the yield of Shanghai Stock Exchange Composite Index and Shenzhen Stock Exchange Composite Index from 1991 to 2021;

(iv) we have reviewed the list of three comparable companies and noted that these comparable companies are principally engaging in sales of ICT products and provision of digital services, which are similar to the business of CNBM Technology. As such, we concur with the Valuer that the comparable companies selected by the Valuer are fair and representative samples;

(v) the levered beta and the unlevered beta of each comparable company is extracted from Wind Database; and

(vi) the unlevered beta of each comparable company is determined based on the above levered beta, the debt-to-equity ratio as at the Valuation Reference Date, and the applicable enterprise income tax rate of each comparable company;

Based on the above, we are of the view that the discount rate used in the Valuation is fair and reasonable.

Estimated net profit

In estimating the net profit in relation to the principal business of CNBM Technology, we noted that:

(i) the revenue is estimated based on (a) the ongoing contracts on hand of CNBM Technology as at the issue date of the Valuation Report; and (b) the estimate of growth of the business of approximately 2%, which is determined based on the anticipated development of ICT products, cloud computing and digital services industry since 2023;

(ii) the gross profit is estimated based on the above revenue and the historical gross profit rates for each of two years ended 31 December 2021 and for the seven months ended 31 July 2022;

(iii) the tax and surcharges, selling expense, and administrative expense are estimated based on the above revenue and the historical proportion of the respective expenses as stated above to the revenue for the two years ended 31 December 2021 and seven months ended 31 July 2022; and

(iv) the income tax expense is estimated based on the estimated profit before income tax and the PRC enterprise income tax rate of 25%.

Based on the above, we consider that the estimated net profit is fair and reasonable.

Estimated depreciation and amortization cost

We noted that the estimated depreciation and amortization cost is determined with reference to the net book value of the fixed assets and intangible assets as at 31 July 2022 and the historical average depreciation or amortization rate of each category of the above assets as at the same date.

Based on the above, we consider that the estimated depreciation and amortization cost is fair and reasonable.

Estimated interest expense after income tax

We noted that the estimated interest expense after income tax is forecast based on (i) the estimated revenue; (ii) the historical proportion of the interest expense before income tax to the revenue for the year ended 31 December 2022; and (iii) the PRC enterprise income tax rate of 25%.

Based on the above, we consider that the estimated interest expense after income tax is fair and reasonable.

Estimated capital expenditure

We noted that the estimated capital expenditure is forecast with reference to the plan of CNBM Technology to purchase the machinery and equipment for the business operation during the forecast period.

Based on the above, we consider that the estimated capital expenditure is fair and reasonable.

Estimated changes in the working capital

We noted that the estimated changes in the working capital are forecast based on (i) the estimated revenue and estimated gross profit as shown above; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the five years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year.

Based on the above, we consider that the estimated changes in the working capital are fair and reasonable.

Conclusion

In view of the above, we are of the opinion that the appraised value of the net operating assets is fair and reasonable.

(b) Appraised value of the net non-operating assets

As advised by the Valuer, non-operating assets and liabilities represent those assets and liabilities which are not involved in the generation of free cash flow of CNBM Technology.

We noted that asset-based approach was adopted by the Valuer for the valuation of the net non-operating assets of CNBM Technology and understood that:

(i) income approach was not adopted for the valuation of the net non-operating assets because the integrating effect of the net non-operating assets cannot reflect the capacity to generate profits by the above net operating assets;

(ii) market approach was not adopted for the valuation of the net non-operating assets because the Valuer could not find a comparable reference for the appraised value of net non-operating assets of CNBM Technology in the open market due to limited public information on the valuation of net non-operating assets of companies with similar businesses to CNBM Technology; and

(iii) asset-based approach was adopted for the valuation of the net non-operating assets because the net book value and the appraised value of the net non-operating assets could be measured reliably and evaluated under the asset-based approach, respectively.

Based on above, we are of the view that the adoption of the asset-based approach on the valuation of net non-operating assets is fair and reasonable.

The following table sets out the breakdown of the net non-operating assets as at the Valuation Reference Date:

	As at 31 July 2022			
	Appraised value	**Net book value**	**Difference**	***Note***
	RMB'000	*RMB'000*	*RMB'000*	
Non-operating assets, including:	943,792	943,792	–	
Cash and cash equivalent	32,942	32,942		*1*
Trade receivables	505,520	505,520	–	*2*
Other receivables	219,442	219,442	–	*3*
Other current assets	26,603	26,603	–	*4*
Long-term prepaid expenses	2,288	2,288	–	*5*
Deferred tax assets	153,997	153,997	–	*6*
Other non-current assets	3,000	3,000	–	*7*
Less: Non-operating liabilities, including:	57,270	57,270	–	
Short-term borrowings	7,620	7,620	–	*8*
Trade payables	21,352	21,352	–	*9*
Other payables	8,188	8,188	–	*10*
Long-term liabilities due within one year	20,110	20,110	–	*8*
Net non-operating assets	886,522	886,522	–	

Notes:

1. *The cash and cash equivalent represents the excessive bank balance more than needed for the daily business operation of CNBM Technology.*

2. *The trade receivables represent the balance due from the related parties and the outstanding balance due from two customers. Due to the disputes between CNBM Technology and the two customers, respectively, CNBM Technology has filed with the court against the two customers. As at the Valuation Reference Date, the litigations between CNBM Technology and the two respective customers have not started.*

3. *The other receivables mainly represent the deposit of rental properties, property management, and tenders.*

4. *Other current assets mainly represent the prepaid income tax expense.*

5. *The long-term prepaid expenses represent the guarantee expenditure for the issue of asset-back securities, which will be valid for at least 12 months.*

6. *The deferred tax assets derived from the provision of trade and other receivables and inventories.*

7. *The other non-current assets mainly represent the asset-backed securities purchased by CNBM Technology.*

8. *The balance of the borrowings represents the interest payable to be paid by CNBM Technology.*

9. *Reference is made to note 2 above. Given that the litigation between CNBM Technology and one of the customers as mentioned in note 2 has not started as at the Latest Practicable Date, all the balances of the trade payables derived from the transactions contemplated under the dispute as mentioned in note 2 was not taken into account when appraising the net operating-assets of CNBM Technology.*

10. *The other payables represent the deposit to be repaid to the counterparty and annual fee of patents.*

We have reviewed the nature of the above non-operating assets and liabilities and are of the view that these non-operating assets and liabilities are not involved in the generation of free cash flow. As such, we consider that the appraised value of the net non-operating assets is fair and reasonable.

(c) Appraised value of the long-term investment

The following table sets forth the breakdown of the long-term investments:

Company	Valuation method used to determine the appraised value	Shareholding percentage as at the Valuation Reference Date	Appraised value	Net book value	Variance
			RMB'000	*RMB'000*	*RMB'000*
			a	b	c=a-b
Company A	Income approach	100.00%	733,613	200,000	533,613
Company B	Income approach	100.00%	377,171	16,346	360,825
Company C	Income approach	51.00%	76,552	62,449	14,103
Company D	Income approach	65.00%	35,703	15,795	19,908
	Total		1,223,039	294,590	928,449

We are advised by the Valuer that income approach was adopted for the valuation of the entire equity interest of each of CNBM Technology Subsidiary due to the following reasons:

(i) CNBM Technology Subsidiaries are mainly engaged in the provision of (a) ICT value-added service and digital services; and (b) artificial intelligence specializing in machine vision and deep learning, which are asset-light business models. As such, the amount of the fixed assets is low. In addition, asset-based approach can only reflect the value of each individual asset of CNBM Technology Subsidiaries but cannot reflect the value of the integration effect regarding the combination of each individual asset. As such, asset-based approach was not adopted for the valuation of CNBM Technology Subsidiaries;

(ii) market approach was not adopted for the valuation of the entire equity interest of each CNBM Technology Subsidiaries because there is very limited publicly available information in relation to the merger and acquisition of the companies whose business is similar to CNBM Technology Subsidiaries; and

(iii) income approach was adopted for the valuation of the entire equity interest of each CNBM Technology Subsidiaries because income approach can reflect the value of (a) the intangible assets which are not included in the respective balance sheets of CNBM Technology Subsidiaries; and (b) the integration effect regarding the combination of each individual asset, including but not limited to capability of research and development, management team, and customer relationships.

In view of the above, the appraised value of the long-term investment of each CNBM Technology Subsidiary is calculated based on the following items: (i) appraised value of the net operating assets; (ii) appraised value of the net non-operating assets; (iii) appraised value of the long-term investment; and (iv) interest-bearing liabilities. The following table sets out the details of the above of each CNBM Technology Subsidiary:

Components		**Company A**	**Company B**	**Company C**	**Company D**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Appraised value of the net operating assets		668,072	801,111	223,490	43,177
Appraised value of the net non-operating assets/(liabilities)		65,541	103,887	(65,188)	11,751
Appraised value of the long-term investment		–	–	–	–
Less: Interest-bearing liabilities		–	(527,827)	(8,200)	–
Total	*a*	733,613	377,171	150,102	54,928
Shareholding percentage by CNBM Technology	*b*	100%	100%	51%	65%
Appraised value	***c = a*b***	**733,613**	**377,171**	**76,552**	**35,703**

(i) Appraised value of the net operating assets

In our assessment of the appraised value of the long-term investments, we noted that the Valuer has applied the discounted cash flow method to estimate the net present value of the projected free cash flow of the entire equity interests of CNBM Technology Subsidiaries at a discount rate.

The appraised value of the long-term investments is based on the net present value of the projected free cash flow of each CNBM Technology Subsidiary, which is further determined with reference to: (i) the estimated net profit; (ii) the estimated depreciation and amortization cost; (iii) the estimated interest expense after enterprise income tax; (iv) the estimated capital expenditure; and (v) the estimated changes in the working capital.

Discount rate

In estimating the discount rate for the income approach, the Valuer has adopted the weighted average cost of capital to compute the cost of capital as the discount rate. We understand from the Valuer that the discount rate was determined with reference to the cost of equity and cost of debt.

In terms of (i) the cost of debt; (ii) risk-free rate under cost of equity; (iii) market risk premium under cost of equity; and (iv) enterprise-specific risk adjustment factor under cost of equity, please refer to the paragraph under the section headed "PRINCIPAL FACTORS AND REASONS CONSIDERED – B. The Merger by Absorption – 5. Assessment on the valuation of CNBM Technology – (4) Application of the income approach – (a) Appraised value of the net operating assets – Discount rate".

Regarding the levered beta under cost of equity, it is determined with reference to (i) the average unlevered beta of the comparable companies which are listed on the PRC stock market; (ii) debt-to-equity ratio of the comparable companies; and (iii) the applicable enterprise income tax rate of each CNBM Technology Subsidiary.

For our purpose of due diligence, we have assessed the basis and the calculation of the discount rate as follows:

(i) we have reviewed the LPR on the bank loans for one year in the website of the PBoC and noted that the cost of debt used in the Valuation is the same as the LPR on the bank loans for one year immediately preceding the Valuation Reference Date as announced by the PBoC;

(ii) we are advised by the Valuer that the market risk premium is calculated based on the yield of Shanghai Stock Exchange Composite Index and Shenzhen Stock Exchange Composite Index from 1991 to 2021;

(iii) the nominal risk-free rate is determined with reference to the average of yield on PRC government bonds which will expire after 10 or more years from the Valuation Reference Date, which is determined with reference to the list of PRC government bonds extracted from Wind Database;

(iv) we have reviewed the comparable companies of each CNBM Technology Subsidiary, details of which are set out as follows:

	Company A	**Company B**	**Company C**	**Company D**
Number of comparable companies	3	3	3	4
Principal business of comparable companies	Sales of ICT products and provision of digital services	Sales of ICT products and provision of digital services	Sales of ICT products and provision of digital services	Solution provider of artificial intelligence in terms of data processing involved with machine learning
Principal business of each CNBM Technology Subsidiary	Sales of ICT value-added products and provision of digital service	Sales of ICT value-added products and provision of digital service	Sales of ICT value-added products and provision of digital service	Solution provider of artificial intelligence specializing in machine vision and deep learning (a subset of machine learning)

We noted that the principal business of the comparable companies is similar to that of each CNBM Technology Subsidiary. As such, we concur with the Valuer that the comparable companies selected by the Valuer are fair and representative samples;

(v) the levered beta and the unlevered beta of each comparable company is extracted from Wind Database; and

(vi) the unlevered beta of each comparable company is determined based on the above levered beta, the debt-to-equity ratio as at the Valuation Reference Date, and the applicable enterprise income tax rate of each comparable company;

Based on the above, we are of the view that the respective discount rate used in the valuation of the entire equity interests of each CNBM Technology Subsidiary is fair and reasonable.

Estimated free cash flow

The following table sets out the basis of the estimation in relation to the net profit of each CNBM Technology Subsidiary:

	Company A	**Company B**	**Company C**	**Company D**
Revenue	(i) the ongoing contracts on hand as at the issue date of the valuation report; and	The average revenue for two years ended 31 December 2022	(i) the ongoing contracts on hand as at the issue date of the valuation report; and	(i) the ongoing contracts on hand as at the issue date of the valuation report; and
	(ii) the estimate of growth of the business, which is based on the anticipated development of ICT products and provision of digital services since 2023		(ii) the estimate of growth of the business, which is based on the anticipated development of ICT products and provision of digital services since 2023	(ii) the estimate of growth of the business, which is based on the anticipated development of machine vision and deep learning industry since 2023

	Company A	Company B	Company C	Company D
Gross profit	(i) estimated revenue; and (ii) the historical gross profit ratio for the year ended 31 December 2022	(i) estimated revenue; and (ii) the average historical gross profit ratio for each of the two years ended 31 December 2022	(i) estimated revenue; and (ii) the historical gross profit ratio for the four years ended 31 December 2022	(i) estimated revenue; and (ii) the historical gross profit ratio for the three years ended 31 December 2022
Tax and surcharges, selling expense, and administrative expense	(i) revenue; and (ii) the average historical proportion of the respective expenses to the revenue for the two years ended 31 December 2021	(i) revenue; and (ii) the average historical proportion of the respective expenses to the revenue for the two years ended 31 December 2022	(i) revenue; and (ii) the historical proportion of the respective expenses to the revenue for the four years ended 31 December 2022	(i) revenue; and (ii) the historical proportion of the respective expenses to the revenue for the four years ended 31 December 2022
Enterprise income tax expense	(i) estimated profit before income tax; and (ii) the PRC enterprise income tax rate of 25%	(i) estimated profit before income tax; and (ii) the PRC enterprise income tax rate of 25% *(Note)*	(i) estimated profit before income tax; and (ii) the PRC enterprise income tax rate of 25%	(i) estimated profit before income tax; and (ii) the PRC enterprise income tax rate of 25%

	Company A	Company B	Company C	Company D
Depreciation and amortization cost	The net book value of the fixed assets and intangible assets as at the Valuation Reference Date and the historical average depreciation or amortization rate of each category of the above assets as at the same date	Not applicable because Company B does not have fixed assets or intangible assets. CNBM Technology provided all the fixed assets necessary for the operation of Company B to Company B	The net book value of the fixed assets and intangible assets as at the Valuation Reference Date and the historical average depreciation or amortization rate of each category of the above assets as at the same date	The net book value of the fixed assets and intangible assets as at the Valuation Reference Date and the historical average depreciation or amortization rate of each category of the above assets as at the same date
Interest expense after enterprise income tax	Not applicable because Company A will not have interest-bearing liabilities	The interest expense after enterprise income tax for FY2022 is determined according to the actual interest expense incurred in the same period. No interest expense will incur from the year ending 31 December 2023 because Company B will not have interest-bearing liabilities	(i) the estimated revenue; (ii) the average historical proportion of the interest expense before income tax to the revenue for the three years ended 31 December 2021 and the seven months ended 31 July 2022; and (iii) the PRC enterprise income tax rate of 25%	Not applicable because Company D will not have interest-bearing liabilities

	Company A	Company B	Company C	Company D
Capital expenditure	(i) plan to purchase the equipment (such as server, storage device) for the business operation during the forecast period; and (ii) historical incurred maintenance expenses for the existing fixed assets	Not applicable because Company B will not acquire any fixed assets or intangible assets. CNBM Technology will continue to provide all the fixed assets necessary for the operation of Company B to Company B	Historical incurred maintenance expenses for the existing fixed assets	Historical incurred maintenance expenses for the existing fixed assets
Changes in the working capital	(i) the estimated revenue and estimated gross profit; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the five years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year	(i) the estimated revenue and estimated gross profit; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the two years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year	(i) the estimated revenue and estimated gross profit; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the four years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year	(i) the estimated revenue and estimated gross profit; (ii) the historical turnover rates of the inventory, trade receivables, and trade payables for the two years ended 31 December 2022; and (iii) the balance of the working capital as at the date of the financial year end of the previous year

Note: We are advised by the Valuer that the adoption of PRC enterprise income tax rate of 25% is based on the assumption that all the net profit of Company B will be distributed to CNBM Technology, its sole shareholder established in the PRC. Since Company B is not a resident enterprise as defined under the PRC Taxation Law, the dividend to be distributed by Company B to CNBM Technology (i.e., the net profit of Company B) is liable to PRC enterprise income tax. Based on the taxation arrangement between the PRC and Hong Kong (to avoid double taxation), the maximum enterprise income tax, which is derived from the distribution of dividend as mentioned above, to be incurred is calculated based on (i) profit before tax of Company B; multiplied by (ii) the PRC enterprise income tax rate of 25%. Therefore, we concur with the Valuer's view in terms of the adoption of the PRC enterprise income tax rate.

Conclusion

In view of the above, we are of the opinion that the appraised value of the net operating assets is fair and reasonable.

(ii) Appraised value of the net non-operating assets

We are advised by the Valuer that the appraised value and the net book value of the non-operating assets and liabilities of each CNBM Technology Subsidiary are the same. The following table sets out the breakdown of the net non-operating assets as at the Valuation Reference Date:

	Appraised value as at 31 July 2022				
	Company A	**Company B**	**Company C**	**Company D**	***Note***
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Non-operating assets, including:	614,441	171,759	5,420	11,755	
Cash and cash equivalent	434,043	171,289	–	11,404	*1*
Trade receivables	116,348	–	–	–	*2*
Other receivables	41	–	1,341	–	*3*
Other current assets	48,168	–	133	350	*4*
Deferred tax assets	15,841	470	3,946	1	*5*
Less: Non-operating liabilities, including:	548,900	67,872	70,608	4	
Short-term borrowings	–	–	608	–	*6*
Trade payables	411,000	–	–	–	*7*
Other payables	137,900	67,872	70,000	4	*8*
Net non-operating assets/ (liabilities)	65,541	103,887	(65,188)	11,751	

Notes:

1. *The cash and cash equivalent represents the excessive bank balance more than needed for the daily business operation of each CNBM Technology Subsidiary.*

2. *The trade receivables represent the balance due from a customer of Company A. In 2020, the sales of Company A were completed and Company A recognized the revenue accordingly. However, the above customer did not settle the trade receivables after such sales. In December 2022, both parties entered into the termination agreement in respect of such sales. In light of the above, the trade receivables were not considered as operating assets under the valuation of Company A.*

3. *The other receivables mainly represent the value-added tax deductible.*

4. *Other current assets mainly represent the prepaid income tax expense.*

5. *The deferred tax assets derived from the provision of trade and other receivables.*

6. *The balance of the borrowings represents the interest payable to be paid by Company C.*

7. *The trade payables represent the amount due to the related party CNBM Technology.*

8. *The other payables mainly represent the amount due to the related party CNBM Technology.*

We have reviewed the nature of the above non-operating assets and liabilities and are of the view that these non-operating assets and liabilities are not involved in the generation of free cash flow. As such, we consider that the appraised value of the net non-operating assets is fair and reasonable.

(iii) Appraised value of the long-term investment

None of CNBM Technology Subsidiaries has long-term investments.

(iv) Interest-bearing liabilities

The appraised value of the interest-bearing liabilities of all CNBM Technology Subsidiaries was approximately RMB536 million as at the Valuation Reference Date, details of which are set out as follows:

	As at 31 July 2022			
	Company A	**Company B**	**Company C**	**Company D**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing liabilities	–	527,827	8,200	–

For our due diligence purpose, we have reviewed the following breakdown of the interest-bearing liabilities as stated in the financial statements of Company B and Company C as at the Valuation Reference Date:

	As at 31 July 2022	
	Company B	**Company C**
	RMB'000	*RMB'000*
Interest-bearing liabilities (consisting of short-term loans only), including:	527,827	8,808
Principal of interest-bearing liabilities (as stated in this section)	527,827	8,200
Interests of interest-bearing liabilities (as stated under the section headed "(ii) Appraised value of the net non-operating assets")	–	608

We noted that the total of interest-bearing liabilities as shown in the financial statements is equal to the sum of (i) the principal of the interest-bearing liabilities as shown in this section; and (ii) the short-term borrowings classified under non-operating liabilities, which is stated in the table under the section headed "PRINCIPAL FACTORS AND REASONS CONSIDERED – B. The Merger by Absorption – 5. Assessment on the valuation of CNBM Technology – (4) Application of the income approach – (c) Appraised value of the long-term investments – (ii) Appraised value of the net non-operating assets" above.

Based on the above, we are of the view that the appraised value of the interest-bearing liabilities of CNBM Technology Subsidiaries is fair and reasonable.

(v) Conclusion

Based on the above, we are of the view that the appraised value of the long-term investments of CNBM Technology is fair and reasonable.

(d) Interest-bearing liabilities

We noted that asset-based approach was adopted by the Valuer for the valuation of the interest-bearing liabilities of CNBM Technology and understood that:

(i) income approach was not adopted for the valuation of the interest-bearing liabilities because the integrating effect of the interest-bearing liabilities cannot reflect the capacity to generate profits;

(ii) market approach was not adopted for the valuation of the interest-bearing liabilities because the Valuer could not find a comparable reference for the appraised value of interest-bearing liabilities of CNBM Technology in the open market due to limited public information on the valuation of interest-bearing liabilities of companies with similar businesses and financial risk to CNBM Technology; and

(iii) asset-based approach was adopted for the valuation of the interest-bearing liabilities because the net book value and the appraised value of the interest-bearing liabilities could be measured reliably and evaluated under the asset-based approach, respectively.

Based on above, we are of the view that the adoption of the asset-based approach on the valuation of interest-bearing liabilities is fair and reasonable.

According to the Valuation Report, as at the Valuation Reference Date, the appraised value of the interest-bearing liabilities was approximately RMB6,654 million, details of which are set out as follows:

Items of interest-bearing liabilities	**31 July 2022**
	RMB'000
Short-term borrowings	4,853,665
Long-term liabilities due within one year	765,000
Long-term borrowings	1,035,000
Total of interest-bearing liabilities	6,653,665

For our due diligence purpose, we have reviewed the breakdown of the short-term borrowings, long-term liabilities due within one year, and long-term borrowings as at the Valuation Reference Date, details of which are set out as follows:

		As at 31 July 2022	
	Short-term borrowings	**Long-term liabilities due within one year**	**Long-term borrowings**
	RMB'000	*RMB'000*	*RMB'000*
Amount stated in the balance sheet of CNBM Technology, including:	4,880,128	805,574	1,035,000
Principal of interest-bearing liabilities (as stated in this section)	4,853,665	765,000	1,035,000
Interests of interest-bearing liabilities (as stated under the section headed "(b) Appraised value of the net non-operating assets")	7,620	20,110	–
Other liabilities (classified as net operating assets)	18,843 *(Note 1)*	20,464 *(Note 2)*	–

Notes:

1. We are advised by the management of the Company that the short-term borrowings of approximately RMB18 million consist solely of the discounted bills which are within their validity period and with recourse (the "**Discounted Bills**"). Given that the holder of the Discounted Bills may exercise the right with recourse within its validity period, short-term loans shall be recognized upon the discounting of the Discounted Bills.

   We are also advised by the Valuer that the Discounted Bills have been taken into account when appraising the net operating assets because bills discounting is in the ordinary and usual course of business of CNBM Technology.

2. The long-term liabilities due within one year of approximately RMB20 million represent the lease liability of CNBM Technology. We are advised by the Valuer that the lease liability has been considered when appraising the net operating assets.

Based on the above, we are of the view that the appraised value of the interest-bearing liabilities of CNBM Technology is fair and reasonable.

(5) Assessment on the effectiveness of the Valuation Report

We noted that the Valuation Reference Date is 31 July 2022, which is almost a year away from the Latest Practicable Date. Nevertheless, we consider that such factor will not affect the fairness and reasonableness of the Valuation due to the following reasons:

(i) the Valuation has taken into account the actual business operation after the Valuation Reference Date, including but not limited to the historical financial performance of CNBM Technology for FY2022 and the ongoing contracts on hand of CNBM Technology as at the issue date of the Valuation Report; and

(ii) despite the fact that the Valuation Reference Date is almost a year away from the Latest Practicable Date, the Valuation was performed by means of income approach with reference to the development of the industry and the business of CNBM Technology Group as at the issue date of the Valuation Report, being 17 May 2023, which is only approximately two months away from the Latest Practicable Date. As such, the Valuation can reflect the forecast based on the recent development of the business of CNBM Technology Group.

(6) Conclusion

Notwithstanding the fact that (i) the net profit before tax of CNBM Technology Group has significantly decreased in FY2022 as compared to FY2021; and (ii) the Valuation Reference Date is almost one year away from the Latest Practicable Date, given that:

(a) the provision of the ECL is a one-off incident and the deterioration of the financial performance of CNBM Technology Group for FY2022 does not indicate a permanent downturn of the profitability of CNBM Technology Group;

(b) the Valuation has taken into account the actual business operation after the Valuation Reference Date, including but not limited to the historical financial performance of CNBM Technology for FY2022 and the ongoing contracts on hand as at the issue date of the Valuation Report; and

(c) the Valuation was performed by means of income approach with reference to the development of the industry and the business of CNBM Technology Group as at the issue date of the Valuation Report,

We are of the view that both the Valuation and Consideration Value are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

6. Financial impact of the Merger by Absorption

Upon Completion, Ningxia Building Materials will remain as a subsidiary of the Company and its financial results will continue to be consolidated in the Group. The Group does not expect to record any gain or losses in relation to the Merger by Absorption.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that the Merger by Absorption is in the ordinary and usual course of business and on normal commercial terms to the Group, and the terms of the Merger Agreements are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders to vote in favor of the ordinary resolution(s) to be proposed at the EGM to approve the Merger by Absorption.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Vily Leung
Director

Ms. Vily Leung is a person licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and is a responsible officer of Donvex Capital Limited who has around 13 years of experience in corporate finance advisory.

* *For identification purposes only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS IN SHARES

I. Interests and short positions of the Directors, Chief Executive and Supervisors

As at the Latest Practicable Date, so far as the Directors, chief executive or supervisor of the Company are aware, none of the Directors, chief executive or Supervisors of the Company had interests and short positions in the Shares, underlying Shares and/or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange (a) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code of Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

II. Interests of Shareholders disclosable pursuant to the SFO

As at the Latest Practicable Date, so far as is known to the Directors, chief executive or supervisors of the Company, the following persons (other than a Director, chief executive or supervisor of the Company) had an interest or short position in the Shares or underlying Shares of Company (as the case may be) which would fall to be disclosed to Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by Company under Section 336 of the SFO or had otherwise notified the Company are as follows:

Name of substantial Shareholders	Class of Shares	Long/short position/ Lending Pool	Capacity	Number of Shares held	*Notes*	Percentage of the relevant class of share capital *(%)*[1]	Percentage of total share capital *(%)*[1]
Parent	Domestic Shares	Long	Beneficial owner	628,592,008			
	Domestic Shares	Long	Interest of controlled corporations	2,984,713,973			
				3,613,305,981	*2*	93.21	42.84
	H Shares	Long	Beneficial owner	8,536,000			
	H Shares	Long	Interest of controlled corporations	175,428,000			
				183,964,000		4.04	2.18
Beijing New Building Material (Group) Co., Ltd.	Domestic Shares	Long	Beneficial owner	1,485,566,956	*2*	38.32	17.61
Sinoma Group	Domestic Shares	Long	Beneficial owner	1,270,254,437	*2*	32.77	15.06
Taian Taishan Finance Investment Co., Ltd.	Domestic Shares	Long	Interest of controlled corporations	263,318,181	*3*	6.79	3.12
Taian Taishan Investment Co., Ltd.	Domestic Shares	Long	Beneficial owner	263,318,181	*3*	6.79	3.12
CBMJI	Domestic Shares	Long	Beneficial owner	227,719,530	*2*	5.87	2.70
	H Shares	Long	Beneficial owner	168,628,000		3.70	2.00
GIC Private Limited	H Shares	Long	Investment manager	317,349,094		6.96	3.76

Notes:

1. As at the Latest Practicable Date, the Company's total issued share capital comprises 8,434,770,662 Shares, including 3,876,624,162 Domestic Shares and 4,558,146,500 H Shares.

2. Of these 3,613,305,981 Shares, 628,592,008 Shares are directly held by the Parent, the remaining 2,984,713,973 Shares are deemed corporate interest indirectly held through Beijing New Building Material (Group) Co., Ltd., Sinoma Group, CBMJI and China Building Materials Academy Co., Ltd. Sinoma Group, CBMJI and China Building Materials Academy Co., Ltd. are wholly-owned subsidiaries of the Parent. Beijing New Building Material (Group) Co., Ltd. is a subsidiary of the Parent which directly and indirectly holds 100% of its equity interests, of which 70.04% is directly held and 29.96% is indirectly held through China National Building Material Import and Export Co., Ltd. Under the SFO, the Parent is deemed to own the Shares directly held by Beijing New Building Material (Group) Co., Ltd. (1,485,566,956 Shares), Sinoma Group (1,270,254,437 Shares), CBMJI (227,719,530 Shares) and China Building Materials Academy Co., Ltd. (1,173,050 Shares).

3. Taian Taishan Investment Co., Ltd. is a wholly-owned subsidiary of Taian Taishan Finance Investment Co., Ltd. Under the SFO, Taian Taishan Finance Investment Co., Ltd. is deemed to own 263,318,181 Shares directly held by Taian Taishan Investment Co., Ltd.

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any persons who have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

3. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

The followings are the particulars of Directors' and Supervisors' employment with substantial shareholders as at the Latest Practicable Date:

Name	Position in the Company	Position held in the substantial shareholder
Zhou Yuxian	Chairman and executive Director of the Company	Chairman of the Parent
Wei Rushan	President and executive Director of the Company	Deputy general manager of the Parent
Li Xinhua	Non-executive Director of the Company	General manager and director of the Parent
Chang Zhangli	Non-executive Director of the Company	Deputy secretary to the CPC Committee of the Company, employee director and chairman of the labour union of the Parent
Wang Yumeng	Non-executive Director of the Company	Deputy general manager of the Parent
Shen Yungang	Non-executive Director of the Company	Deputy general manager of the No. 1 strategic client department of China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司)
Fan Xiaoyan	Non-executive Director of the Company	Director and general manager of Taishan Finance
Qu Xiaoli	Shareholder supervisor of the Company	Assistant to the general manager and the deputy chief accountant of the Parent
Zhang Jianfeng	Shareholder supervisor of the Company	Secretary to the board of directors of BBMG Corporation (北京金隅集團股份有限公司)

4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited accounts of the Company were made up, up to and including the Latest Practicable Date.

5. SERVICE CONTRACTS

None of the Directors or Supervisors has entered into a service contract with any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation (other than statutory compensation)).

6. OTHER INTERESTS OF THE DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date:

(a) none of the Directors or Supervisors had any direct or indirect interest in any assets which have been, since 31 December 2022, the date of the latest published audited accounts of the Company, 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;

(b) none of the Directors or Supervisors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Group; and

(c) none of the Directors and their close associates had any competing interest, in a business which competes or is likely to compete either directly or indirectly, with the business of the Group.

7. EXPERT

The name and qualification of the experts who have given their opinion, letter or advice contained in this circular are as follows:

Name	**Qualification**
Moore Stephens CPA Limited	Certificate Public Accountants
Donvex Capital Limited	A corporation licensed for carrying out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the experts listing above did 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 consolidated financial statements of the Group were made up; and

(b) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Moore Stephens CPA Limited and Donvex Capital Limited has given and has not withdrawn its written consent to the issue of this circular with its letter and reference to its name included in the form and context in which it is included.

8. DOCUMENTS ON DISPLAY

The following documents are published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cnbmltd.com) from the date of this circular up to and including the date of the EGM.

(a) the Merger Agreements; and

(b) the Compensation Agreement.

The following is the text of a report received from the reporting accountant, Moore Stephens CPA Limited, Certified Public Accountants, for inclusion in this circular.

MOORE

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大華馬施雲會計師事務所有限公司

INDEPENDENT REPORT ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE EQUITY INTEREST IN CNBM TECHNOLOGY CORPORATION LIMITED ("CNBM TECHNOLOGY")

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 Zhuoxindahua Appraisal Company Limited dated 17 May 2023 in respect of the 100% equity interest of the CNBM Technology as at 31 July 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 circular of the Company dated 28 July 2023 in connection with the proposed acquisition of equity interests in CNBM Technology (the "**Circular**").

Directors' responsibilities for the discounted future estimated cash flows

The directors of the Company and CNBM Technology (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 Circular (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 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements", 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 CNBM Technology, 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 CNBM Technology.

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 July 2023

28 July 2023
The Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square,
8 Connaught Place, Central, Hong Kong

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO THE MERGER BY ABSORPTION BY NINGXIA BUILDING MATERIALS OF CNBM TECHNOLOGY

We refer to the valuation report (Zhuoxindahua Ping Bao Zi (2023) No. 1065) dated 17 May 2023 in relation to the valuation of the equity interests of CNBM Technology Corporation Limited* (中建材信息技術股份有限公司) ("**CNBM Technology**") as at 31 July 2022 prepared by Beijing Zhuoxindahua Appraisal Company Limited* (北京卓信大華資產評估有限公司) (the "**Independent Valuer**") (the "**Valuation**").

Since the profit undertaking in respect of CNBM Technology is based on the Valuation adopting, among others, the value of the discounted cash flow method which is a type of income approach, the profit undertakings constitute profit forecasts under Rules 14A.06(32) and 14.61 of the Listing Rules and accordingly, Rules 14A.70(13) (in respect of paragraph 29(2) of Appendix 1, Part B) 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.70(13) (in respect of paragraph 29(2) of Appendix 1, Part B) 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 purpose only*

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)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting ("**EGM**") of China National Building Material Company Limited (the "**Company**") will be held at 2:00 p.m. on Tuesday, 15 August 2023 at Tower 2, Guohai Plaza, No. 17 Fuxing Road, Haidian District, Beijing, the PRC for the purposes of considering and, if thought fit, passing the following resolution. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the circular of the Company dated 28 July 2023 (the "**Circular**").

AS ORDINARY RESOLUTION

1. To consider and approve the Merger Agreements and the Compensation Agreement and the Merger by Absorption and all other matters incidental thereto or in connection therewith:

"**THAT**

(A) the Merger Agreements and the Compensation Agreement, copies of each of which has been produced to the meeting and signed by the chairman of the meeting for identification purposes, and the Merger by Absorption contemplated thereunder and all other matters incidental thereto or in connection therewith be and are hereby approved and confirmed; and

(B) any one executive director or secretary of the board of the Company be and is hereby authorised for and on behalf of the Company, amongst other matters, to sign, seal, stamp, execute, perfect, deliver, do or to authorise signing, executing, perfecting and delivering and doing all such documents, deeds, acts, matters and things as he/she may in his/her discretion consider necessary, expedient or desirable to give effect to and implement the Merger Agreements and/or the Compensation Agreement and to make and agree such variations in or to the terms of the Merger Agreements and/or the Compensation Agreement as the Board may think fit."

By order of the Board
China National Building Material Company Limited*
ZHOU Yuxian
Chairman of the Board

Beijing, the PRC
28 July 2023

Notes:

(1) All resolutions at the meeting will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands pursuant to the Listing Rules. The chairman of the meeting will therefore demand a poll for every resolution put to vote at the EGM in accordance with the Articles of Association. An announcement on the poll vote results will be made by the Company after the EGM in the manner prescribed under Listing Rule 13.39(5). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

(2) For determining the entitlement to attend and vote at the above meeting, the register of members of the Company will be closed from Thursday, 10 August 2023 to Tuesday, 15 August 2023, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, holders of the H Shares whose transfers have not been registered shall deposit all transfer documents accompanied by the relevant share certificates at the Company's H Share Registrar in Hong Kong, Tricor Investor Services Limited for registration not later than 4:30 p.m. on Wednesday, 9 August 2023.

(3) A Shareholder entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on his behalf. A proxy need not be a Shareholder of the Company. Where a Shareholder appoints more than one proxy, his proxies can only vote on a poll.

(4) The instrument appointing a proxy must be in writing under the hand of a Shareholder or his attorney duly authorised. If the Shareholder is a corporation, that instrument must be either under its common seal or under the hand of its director(s) or duly authorised attorney(s). If that instrument is signed by an attorney of Shareholder of the Company, the power of attorney authorising that attorney to sign or other authorisation document must be notarised.

(5) In order to be valid, the form of proxy together with the power of attorney or other authorisation document (if any) must be deposited at the Secretariat of the Board at the Company's principal place of business in the PRC for holders of the Domestic Shares and at the Company's H Share Registrar in Hong Kong, Tricor Investor Services Limited, for holders of the H Shares not less than 24 hours before the time appointed for the EGM (i.e. not later than 2:00 p.m. on Monday, 14 August 2023) or any adjournment thereof (as the case may be).

(6) A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the appointer, or the revocation of the proxy or of the authority under which the proxy was executed, or the transfer of shares in respect of which the proxy is given, provided that no notice in writing of these matters shall have been received by the Company prior to the commencement of the EGM.

(7) The address and contact details of the Company's H Share Registrar in Hong Kong, Tricor Investor Services Limited, are as follows:

17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong
Telephone No.: (+852) 2980 1333
Facsimile No.: (+852) 2810 8185

(8) The address and contact details of the Company's principal place of business in the PRC are as follows:

Tower 2, Guohai Plaza
No. 17 Fuxing Road Haidian
District Beijing, the PRC
Telephone No.: (+86) 10 6813 8300
Facsimile No.: (+86) 10 6813 8388

(9) In accordance with the Company's Articles of Association, where two or more persons are registered as the joint holders of any share, only the person whose name appears first in the register of members shall be entitled to receive this notice, to attend and exercise all the voting powers attached to such share at the EGM, and this notice shall be deemed to be given to all joint holders of such share.

(10) The EGM is expected to be concluded within half a day. Shareholders (in person or by proxy) attending the EGM are responsible for their own transportation and accommodation expenses. Shareholders of the Company or their proxies attending the EGM shall produce identity documents.

(11) References to time and dates in this notice are to Hong Kong time and dates.

* *For identification only*