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CNBM

China National Building Material Company Limited*

中國建 材 股 份 有 限 公 司

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

(Stock Code: 3323)

CONNECTED TRANSACTIONS ACQUISITION OF TARGET ASSETS

On 25 October 2024, Sinoma Science & Technology (Chengdu) (a subsidiary of the Company, the Buyer) entered into the Assets Acquisition Agreement with Sinoma IT (Chengdu) (a subsidiary of Sinoma International, a connected subsidiary of the Company, the Seller) holding the Target Assets, pursuant to which the Seller has agreed to transfer the Target Assets to the Buyer by way of asset transfer at a total consideration of RMB89,723,215 (tax inclusive).

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 and thus a connected person of the Company under the Listing Rules. Sinoma IT (Chengdu) is a subsidiary of Sinoma International, and Sinoma International is a subsidiary of the Company which is held by the Company as to approximately 40.97%. In addition to the indirect interest in Sinoma International held by the Parent through the Company, the Parent holds additional equity interests of approximately 17.31% in aggregate in Sinoma International and thus each of the Sinoma International and Sinoma IT (Chengdu) is a connected subsidiary of the Company under the Listing Rules. Accordingly, the Assets Acquisition Agreement and the transaction contemplated thereunder constitute connected transactions of the Company.

As both of the Buyer Sinoma Science & Technology (Chengdu) and the Seller Sinoma IT (Chengdu) are subsidiaries of the Company, the Acquisition constitutes the Group's internal assets restructuring and results in substance the Company's acquisition of approximately 32.37% of the equity interests in the Target Assets.

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

INTRODUCTION

On 25 October 2024, Sinoma Science & Technology (Chengdu) (a subsidiary of the Company, the “**Buyer**”) entered into the Assets Acquisition Agreement with Sinoma IT (Chengdu) (a subsidiary of Sinoma International, a connected subsidiary of the Company, the “**Seller**”) holding the Target Assets, pursuant to which the Seller has agreed to transfer the Target Assets to the Buyer by way of asset transfer at a total consideration of RMB89,723,215 (tax inclusive).

PRINCIPAL TERMS OF THE ASSETS ACQUISITION AGREEMENT

Date

25 October 2024

Parties

- (1) Sinoma Science & Technology (Chengdu); and
- (2) Sinoma IT (Chengdu)

Target Assets

Pursuant to the Assets Acquisition Agreement, the Target Assets include the factory buildings, land use rights and related machinery and equipment and electronic equipment owned by the Seller located at No. 320 and No. 436, Pingtang East Road, Jinhua Town, Xinjin District, Chengdu City, Sichuan Province, the PRC (中國四川省成都市新津區金華鎮平塘東路320號、436號).

The land use rights cover an area of approximately 58,493.30 sq.m. The land use rights are of industrial land type with a term of 50 years expiring on 25 February 2065.

The Property contains 4 factory buildings with a gross floor area of approximately 36,464.39 sq.m.

Consideration

The total consideration for the Target Assets is RMB89,723,215 (tax inclusive).

Terms of Payment

The Buyer shall pay the Consideration to the Seller in four installments as follows:

- (1) Within 5 business days following the execution of the Assets Acquisition Agreement, the Buyer shall pay RMB17,944,643 (representing approximately 20% of the Consideration) to the Seller;
- (2) Within 15 business days after the land use right and ownership of the Property have been officially transferred to the Buyer and the Buyer has obtained the renewed Certificate of the Land Use Right and the Certificate of the Property Ownership or Certificate of the Real Estate Ownership, the Buyer shall pay RMB44,861,607.5 (representing approximately 50% of the Consideration) to the Seller;
- (3) Within 20 business days after all of the Target Assets have been transferred and delivered to the Buyer from the Seller, the Buyer shall pay RMB22,430,803.75 (representing approximately 25% of the Consideration) to the Seller; and
- (4) Within 3 months after the Completion and upon the mutual confirmation of the Buyer and the Seller, the Buyer shall pay RMB4,486,160.75 (representing approximately 5% of the Consideration) to the Seller.

The Consideration is arrived at after arm's length negotiations between the Buyer and the Seller with reference to (i) the prevailing property market conditions of the area where the Target Assets are located; and (ii) the Appraised Value as stated in the Valuation Report prepared by the Independent Valuer. According to the Valuation Report, the total market value of the land use rights of the Target Assets were valued at RMB89,723,215 (tax inclusive) as of the Valuation Reference Date (i.e. 31 January 2024). The total book value of the land use rights of the Target Assets were RMB37,865,300.

The Buyer intends to settle the Consideration with its internal resources.

Conditions for Taking Effect

The Assets Acquisition Agreement shall come into effect from the date of being signed by the respective legal representatives of the Buyer and the Seller and stamped with the companies' respective official seals.

Completion

The delivery of the Target Assets shall be deemed to be completed upon completion of all of the following events:

- (1) all of the approvals, consents, exemptions, licenses, authorizations and waivers required to complete the Acquisition have been obtained, including but not limited to all governmental licenses (if applicable), all approvals, consents, exemptions and licenses of any third-party (if applicable), internal decisions of both the Buyer and the Seller and approvals of its relevant superiors;
- (2) the disclosures, representations and warranties made by the Seller in the Assets Acquisition Agreement are true, accurate, complete and not misleading when they were made and remain true, accurate, complete and not misleading as of the Valuation Reference Date;
- (3) the Buyer has obtained legal and required documents, materials and financial documents in relation to the Target Assets;
- (4) both the Buyer and the Seller have completed the transfer procedures for land use right of the Land and the ownership of the Property in relation to the Target Assets, and the Buyer has obtained the renewed Certificate of the Land Use Right and the Certificate of the Property Ownership or Certificate of the Real Estate Ownership registered under its name;
- (5) the Buyer has actually occupied and used the Target Assets;
- (6) no material adverse change with respect to the Target Assets shall have occurred; and
- (7) the Buyer has completed the payment of the Consideration in accordance with the Assets Acquisition Agreement.

Completion shall take place on a day to be mutually agreed in writing by both the Buyer and the Seller after the fulfillment (or waived by the Buyer in writing, if not fulfilled by the Seller) of all the conditions as set out above.

VALUATION OF THE TARGET ASSETS

According to the Valuation Report dated 8 May 2024 issued by North Asia Assets Assessment Co., Ltd., as at the Valuation Reference Date (i.e. 31 January 2024), the Target Assets are valued using the cost method (for buildings, structures and equipment) and the benchmark land price method (for land), and the Appraised Value is RMB89.7232 million. Please refer to Appendix to this announcement for relevant specific contents of the Valuation Report containing, among other things, the valuation methodology, assumptions and key inputs.

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 technological services businesses.

Sinoma Science & Technology (Chengdu)

Sinoma Science & Technology (Chengdu) is a limited liability company incorporated under the laws of the PRC, which is an indirect subsidiary of the Company. Sinoma Science & Technology (Chengdu) is principally engaged in NGV cylinders, hydrogen fuel cell cylinders, composite materials products and gas storage and transportation unit.

Sinoma IT (Chengdu)

Sinoma IT (Chengdu) is a limited liability company incorporated under the laws of the PRC, and a subsidiary of Sinoma International, which is principally engaged in provision of digital system solutions such as intelligent factories, intelligent operation and maintenance, and intelligent equipments. Sinoma IT (Chengdu) is held as to approximately 44.17%, 25.83%, 11.02% and 10.90% by Sinoma International, Sinoma IT, Tang Yanhong and Wang Huailin respectively, and there are no other shareholders holding more than 5% of the shares. To the best of the Directors' knowledge and belief, having made all reasonable enquiries, Tang Yanhong and Wang Huailin are independent third parties of the Company.

The Parent

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

INFORMATION OF THE TARGET ASSETS

Based on the audited accounts of Sinoma IT (Chengdu) prepared in accordance with the PRC Accounting Standards for the years ended 31 December 2022 and 2023 respectively, the net profit (before and after tax) under the existing tenancy agreements in respect of the Target Assets held by Sinoma IT (Chengdu) for the years ended 31 December 2022 and 2023 are set out below:

	For the financial year ended 31 December 2022		For the financial year ended 31 December 2023	
	Net profit before tax	Net profit after tax	Net profit before tax	Net profit after tax
	<i>(RMB 0'000)</i>	<i>(RMB 0'000)</i>	<i>(RMB 0'000)</i>	<i>(RMB 0'000)</i>
Target Assets	167.36	158.73	133.44	126.67

REASONS FOR AND BENEFITS OF THE ASSETS ACQUISITION AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREUNDER

The Assets Acquisition Agreement and the transactions contemplated thereunder would promote the asset utilization rate of Sinoma IT (Chengdu). Initially Sinoma IT (Chengdu) acquired land use right and constructed factory buildings for conducting investment projects, and the purchase cost in respect of the land use right is approximately RMB9.0987 million. Later, due to the change of the business of Sinoma IT (Chengdu), most of the factory buildings, machines and electronic devices of the Target Assets are currently idle, which could be put into use after the Completion of the Acquisition. In addition, the Assets Acquisition Agreement and the transactions contemplated thereunder would enable Sinoma IT (Chengdu) to revitalize relevant assets and supplement its working capital. Furthermore, the Target Assets are adjacent to Sinoma Science & Technology (Chengdu) and its relevant projects, and the Assets Acquisition Agreement and the transactions contemplated thereunder would enable Sinoma Science & Technology (Chengdu) to invest in its production pipeline.

The Board (including the independent non-executive Directors) is of the view that the terms of the Assets Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable, and the transactions under the Assets Acquisition Agreement are conducted on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole.

As the Acquisition constitutes a connected transaction between the Company and the connected persons relevant to the Parent, directors who concurrently hold positions in the Parent and the Company must abstain from voting on the Board resolution in accordance with the Listing Rules and the Company's Articles of Association. Therefore, Mr. Zhou Yuxian, Mr. Li Xinhua, Mr. Wang Yumeng and Mr. Wei Rushan need to abstain from voting on the Board resolution.

Save as above, none of the Directors has a material interest in the Assets Acquisition Agreement and the transactions contemplated thereunder or is required to abstain from voting on the relevant Board resolution.

LISTING RULES IMPLICATIONS

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 and thus a connected person of the Company under the Listing Rules. Sinoma IT (Chengdu) is a subsidiary of Sinoma International, and Sinoma International is a subsidiary of the Company which is held by the Company as to approximately 40.97%. In addition to the indirect interest in Sinoma International held by the Parent through the Company, the Parent holds additional equity interests of approximately 17.31% in aggregate in Sinoma International and thus both of the Sinoma International and Sinoma IT (Chengdu) are connected subsidiaries of the Company under the Listing Rules. Accordingly, the Assets Acquisition Agreement and the transaction contemplated thereunder constitute connected transactions of the Company.

As each of the Buyer Sinoma Science & Technology (Chengdu) and the Seller Sinoma IT (Chengdu) are subsidiaries of the Company, the Acquisition constitutes the Group's internal assets restructuring and results in substance the Company's acquisition of approximately 32.37% of the equity interests in the Target Assets.

As one or more applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the net Acquisition are higher than 0.1% but all applicable ratios are less than 5%, according to Rule 14A.76(2)(a) of the Listing Rules, the Acquisition is exempt from the circular and shareholders' approval requirements and is only subject to the announcement and reporting requirements under the Listing Rules.

DEFINITIONS

“Acquisition”	the assets acquisition transactions between Sinoma Science & Technology (Chengdu) and Sinoma IT (Chengdu) pursuant to the Assets Acquisition Agreement
“Appraised Value”	the appraised value of Target Assets in the Valuation Report
“Assets Acquisition Agreement”	the assets acquisition agreement dated 25 October 2024, entered into by Sinoma Science & Technology (Chengdu) (as the Buyer) and Sinoma IT (Chengdu)(as the Seller)
“Board”	the board of Directors of the Company
“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 of Hong Kong Limited
“Completion”	the delivery of the Land and the Property pursuant to the Assets Acquisition Agreement, which shall take place on a day to be mutually agreed between the Buyer and the Seller following fulfillment (or waiver, if applicable) of all the agreed conditions
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration of RMB89,723,215 (tax inclusive) in respect of the Acquisition pursuant to the Assets Acquisition Agreement
“Director(s)”	the directors of the Company
“Group”	the Company and its subsidiaries from time to time

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Valuer”	North Asia Asset Assessment Co., Ltd.* (北方亞事資產評估有限責任公司)
“Land”	land parcels located at No. 320 and No. 436, Pingtang East Road, Jinhua Town, Xinjin District, Chengdu, Sichuan Province, PRC (中國四川省成都市新津區金華鎮平塘東路320號、436號) with a total land use rights area of approximately 58,493.30 sq.m.
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Parent”	China National Building Material Group Co., Ltd.* (中國建築材料集團有限公司), 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, for the purpose of this announcement only, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Property”	the 4 factory buildings with a gross floor area of approximately 36,464.39 sq.m. that are built over the Land together with roads, carports, walls, machinery and electronic equipment.
“RMB”	Renminbi, the lawful currency of the PRC
“Sinoma International”	Sinoma International Engineering Co., Ltd.* (中國中材國際工程股份有限公司), a joint stock company listed on the Shanghai Stock Exchange (Stock Code: 600970.SH) and a subsidiary of the Company.
“Sinoma IT”	Sinoma International Intelligent Technology Co., Ltd.* (中材國際智能科技有限公司), a company incorporated under the laws of the PRC and a subsidiary of Sinoma International, and is held as to 98% and 2% by Sinoma International and Feng Jianhua (a independent third party of the Company), respectively
“Sinoma IT (Chengdu)”	Sinoma IT (Chengdu) Co., Ltd.* (中材智能科技(成都)有限公司), a company incorporated under the laws of the PRC, and a subsidiary of Sinoma International

“Sinoma Science & Technology”	Sinoma Science & Technology Co., Ltd.* (中材科技股份有限公司), a company established under the laws of the PRC, a joint stock company listed on the Shenzhen Stock Exchange (stock code: 002080) and a subsidiary of the Company
“Sinoma Science & Technology (Chengdu)”	Sinoma Science & Technology (Chengdu) Co. Ltd.* (中材科技(成都)有限公司), a company incorporated under the laws of the PRC, which is a wholly-owned subsidiary of Sinoma Science & Technology (Suzhou) and also a subsidiary of Sinoma Science & Technology
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Assets”	the assets to be acquired by the Buyer, including the factory buildings, land use rights and related machinery and equipment and electronic equipment owned by the Seller located at No. 320 and No. 436, Pingtang East Road, Jinhua Town, Xinjin District, Chengdu City, Sichuan Province, the PRC (中國四川省成都市新津區金華鎮平塘東路320號、436號)
“Valuation Reference Date”	31 January 2024
“Valuation Report”	the valuation report (North Asia Review (2024) No. [2024]-01-571)《資產評估報告》(北方亞事評報字[2024]第01-571號) prepared by the Independent Valuer in respect of the Acquisition as of the Valuation Reference Date
“%”	per cent

By order of the Board
China National Building Material Company Limited*
Pei Hongyan
Secretary of the Board

Beijing, the PRC
25 October 2024

As at the date of this announcement, the board of directors of the Company comprises Mr. Zhou Yuxian, Mr. Wei Rushan, Mr. Liu Yan and Mr. Wang Bing as executive directors, Mr. Li Xinhua, Mr. Wang Yumeng, Mr. Xiao Jiexiang, Mr. Shen Yungang and Mr. Chen Shaolong as non-executive directors and Mr. Sun Yanjun, Mr. Liu Jianwen, Mr. Zhou Fangsheng, Mr. Li Jun and Ms. Xia Xue as independent non-executive directors.

* *For identification purposes only*

APPENDIX RELEVANT CONTENTS OF VALUATION REPORT

According to the Valuation Report issued by North Asia Asset Assessment Co., Ltd.* dated 8 May 2024, as at the Valuation Reference Date (i.e. 31 January 2024), the Target Assets were valued using the cost method (for buildings, structures and equipment) and the benchmark land price method (for land), and the Appraised Value is RMB89.7232 million (tax inclusive).

1. Subject and Scope of Appraisal

The subject of the appraisal is the market value of the fixed assets and land use rights owned by Sinoma IT (Chengdu) at No. 320 and 436, Pingtang East Road, Jinhua Town. The scope of the appraisal is the fixed assets and land use rights owned by Sinoma IT (Chengdu) at No. 320 and 436, Pingtang East Road, Jinhua Town.

2. Reasons for Choosing the Cost Approach and Benchmark Land Price Approach and Calculation Method

Asset appraisal professionals conduct independent market research based on the specific circumstances of the asset appraisal business, collect relevant information, and conduct necessary screening, analysis, summary, and organization of the collected appraisal data to form the basis for appraisal estimates and the preparation of the Valuation Report. Based on the appraisal purpose, appraisal object, value type, data collection, etc., the applicability of the three basic asset evaluation methods, i.e. market method, income method and cost method, are analyzed, and the evaluation method is selected.

According to the Independent Valuer, the Independent Valuer adopted the cost approach taking into account the following factors: (1) the subject of appraisal has available historical information and is in a state of continuous use, therefore, the cost approach is adopted for the appraisal; (2) the property under appraisal are factories, the benefits of the building are realized in the operation of the enterprise and cannot be separated, so the income approach is not adopted for the appraisal; (3) as there are no recent transactions in the area where the appraised building is located, the market comparison approach is not adopted for the appraisal.

2.1 Adoption of the cost approach in the appraisal of housing structures

The cost method calculates the full replacement value of a building on the basis of the amount of construction works and completion information, the current fixed standard, construction costs and loan interest rates, and the appraised value of a building by determining the newness ratio in accordance with the service life of the building and on-site inspection of the building. The basic formula is:

$$\text{Appraised Value} = \text{Full Replacement Value} \times \text{Newness Ratio}$$

For the appraisal of large-scale, high-value and important buildings (structures), where the enterprises have provided information on the final account of the completion of the housing and building works, the amount of building works shall be determined on the basis of the information on the final account of the completion of the building works; where the enterprises cannot provide information on the final account of the completion of the housing and building works, the amount of building works shall be re-compiled and determined on the basis of the relevant technical information provided by the enterprises as well as on-site investigation, with reference to the indicators of the amount of works of the corresponding buildings. The full replacement value of the building is calculated based on the current fixed standards, construction costs and loan interest rates, and the net appraised value of the building is calculated by comprehensively determining the newness ratio based on the service life of the building and the on-site investigation of the building. For other buildings, the unit replacement value is determined and the net appraised value is calculated on the basis of an on-site investigation, taking into account various appraisal factors in a comparable manner.

(1) Determination of full replacement price

The full replacement price is composed of three parts: construction and installation project costs, preliminary and other costs, and capital costs. That is: replacement full price = construction and installation project costs + preliminary and other engineering fees + capital costs.

① Determination of construction and installation project costs

The construction and installation project costs include the total price of the civil engineering works and installation works, and this time, based on the completion of the housing and building construction data, as-built drawings and on-site investigation to understand the technical condition of the project, in accordance with the “Measures for Pricing the Bill of Quantities of Construction Works in Sichuan Province”, “Cost Quotas for Construction Works in Sichuan Province”, “Rules for the Preparation of Costs for Construction Machinery Benchwork in Construction Works in Sichuan Province”, and “Pricing Quotas for Installation Works in Sichuan Province”

in 2018, and analyze and calculate the costs of its construction and installation works by combining the market prices of local construction materials on the Valuation Reference Date and other pricing standards of the relevant projects.

② Determination of preliminary and other costs

The preliminary and other costs consist of the necessary and normal costs of the construction project and the local administrative and utility costs to be paid when the construction project is submitted in accordance with the procedures. They include construction unit management fees, project supervision fees, environmental assessment fees, feasibility study fees, survey and design fees, bidding agency fees, urban infrastructure support fees, etc. The basis and calculation rate of each fee are listed below:

Schedule of rates for other costs of construction				
Number	Project Name	Fee Collection Base	Rate	Basis
1	Construction unit management fees	Project Cost	1.60%	Finance [2016] No. 504
2	Project supervision fees	Project Cost	2.40%	NDRC Price [2015] No. 299, with reference to NDRC Price [2007] No. 670
3	Environmental assessment fees	Project Cost	0.19%	NDRC Price [2015] No. 299, with reference to NDRC Price [2002] No. 125
4	Feasibility study fees	Project Cost	0.60%	NDRC Price [2015] No. 299, with reference to NDRC Price [1999] No. 1283
5	Survey and design fees	Project Cost	3.60%	NDRC Price [2015] No. 299, with reference to NDRC Price [2002] No. 10
6	Bidding Agency fees	Project Cost	0.41%	NDRC Price [2015] No. 299, with reference to NDRC Price [2002] No. 1980
7	Urban infrastructure support fees	Gross floor area	RMB20.00/sq.m.	Chengcai Zongfa [2020] No. 8

③ Determination of the capital costs

The capital costs is the cost of raising funds, i.e. interest on the loan, which is attributable to the funds occupied for the construction works during the normal construction period. The interest rate on the loan is calculated on the basis of LPR, which is the market interest rate published by the National Interbank Offered Rate Centre authorized by the People's Bank of China as at the

Valuation Reference Date and taking into account that the funds for the construction works are evenly invested during the construction period, the capital costs is determined in accordance with the following formula:

Capital Cost = (construction cost + period charge) x interest rate on the loan x reasonable duration x 50%

(2) *Determination of the newness ratio*

Using the results of the on-site investigation and taking into account the specific conditions of the housing buildings, the composite newness ratio is determined by summing up the results of the on-site investigation after weighting and averaging them according to the different weightings of the age-limit method and the on-site investigation method respectively.

① Determination of the age-limit method newness ratio

The age-limit method newness ratio is determined based on the calculation of the used life and the economic durability of the building to be appraised; the used life is determined based on the time of construction and the Valuation Reference Date; the economic durability is determined based on the structural form of the house and the environment of its use in accordance with the relevant regulations.

Age-limit method newness ratio = $(1 - \text{used life}/\text{economic durability}) \times 100\%$.

② Determination of the site investigation newness ratio

The site investigation newness ratio: the main factors affecting the degree of newness of the asset is categorized, through the building (structural) cost of the weight of the factors affecting the determination of different structural forms of construction of the factors of the standard score, according to the actual situation of the site investigation to determine the evaluation of each category of the score, according to the score of the determination of the site investigation newness ratio. Calculation formula:

The site investigation newness ratio = newness ratio of structural part \times G + newness ratio of decoration part \times S + newness ratio of equipment part \times B

where: G, S, B are weighting factors of structure, decoration and equipment respectively.

③ Determination of Newness ratio

The weights of the age-limit method newness ratio and the site investigation newness ratio are taken as 40% and 60%, respectively, to determine the composite newness ratio.

Consolidated Newness ratio = the age-limit method newness ratio x 40% + the site investigation newness ratio x 60%

(3) *Determination of Appraised Value*

Appraised Value = Full Replacement Value x Newness ratio.

2.2 *Evaluation of equipment using the cost approach*

The cost approach is a method of asset valuation in which the difference between the full cost of repurchasing or constructing the assessed asset in new condition under current conditions, less the depreciation in physical, functional and economic obsolescence that has already occurred in the assessed asset, is taken as the appraised value of the appraised asset. The cost approach can also be used to determine the appraised value by first estimating the degree of newness of the asset under appraisal as compared with its new condition, i.e. to find out the newness ratio, and then multiplying the full cost with the newness ratio, with the product obtained as the appraised value.

Calculation formula: Appraised value = Full Replacement Value × Newness Ratio

According to the relevant national tax policy, input tax can be deducted from the purchase of fixed assets by an enterprise. Therefore, the purchase price of equipment in the full replacement value of equipment-type assets in the current appraisal does not include value-added tax (VAT).

(1) *Determination of full replacement value*

1) Determination of full replacement value of machinery and equipment

Full replacement value = equipment purchase price + miscellaneous transportation fees + installation and commissioning fees + construction unit management fees + capital costs

① Equipment purchase price

Major equipment is obtained by consulting with manufacturers on the market price as of the Valuation Reference Date.

② Miscellaneous transportation fees

Miscellaneous transportation fees = equipment purchase price × miscellaneous transportation rate

Miscellaneous transportation fees are not calculated separately if the miscellaneous transportation fees are borne by the manufacturer.

③ Installation and commissioning fees

The installation and commissioning fees for equipment that does not require installation is 0. The installation and commissioning fees for equipment that is included in the equipment quotation is 0. The installation and commissioning fees for equipment that does not include the installation fee in the equipment quotation and requires installation is calculated as a percentage of the purchase price of the equipment.

④ Construction unit management fees

Calculated in accordance with Notice on the Publication of “Regulations on Construction Cost Management of Basic Construction Projects” (Caijian [2016] No. 504).

Construction unit management fees = (equipment purchase price + miscellaneous transportation fees + installation and commissioning fees) × construction unit management fee rate

⑤ Capital costs

The capital costs is calculated based on the LPR, the market interest rate published by the National Interbank Offered Rate Center authorized by the People’s Bank of China as at the Valuation Reference Date, and the capital costs is based on the average input.

Capital Costs = (equipment purchase price (tax inclusive) + miscellaneous transportation fees + installation and commissioning fees + construction unit management fees) × interest rate on loan × reasonable construction period × 1/2

2) Determination of the full replacement price of electronic equipment

Full replacement price = purchase price (tax inclusive)

Based on the information of the local market and the recent market pricing information of “Zhong Guan Cun Online”, “Pacific Computer Network”, “Jingdong Mall”, etc., the price of the electronic equipment as at the Valuation Reference Date is determined.

(2) *Determination of the newness ratio*

1) Determination of the newness ratio of machinery and equipment

Newness ratio = age-limit method newness ratio × 40% + site investigation newness ratio × 60%

① Determination of the age-limit method newness ratio

Age-limit method newness ratio = (economic life span – used life span)/ economic life span × 100%

② Determination of the site investigation newness ratio

The site investigation newness ratio is determined in accordance with the investigation conditions.

2) Determination of the newness ratio of electronic equipment

Newness ratio = (economic life span - used life)/economic life × 100%

(3) *Determination of appraised value*

Appraised value = Full Replacement Price × Newness Ratio

2.3 Appraisal of land using the Benchmark Land Price method

In accordance with the “Criteria for Asset Appraisal Practice – Real Estate” and the “Rules for Urban Land Valuation”, the methods commonly used for the valuation of land use rights include the market method, the income-reduction method, the hypothetical development method, the cost-approximation method and the method of modification of the benchmark land price coefficient.

As the land acquisition policy in the region where the land under appraisal is located is immature and the land acquisition costs and related expenses are not readily available, the cost approximation method is not adopted for the appraisal.

The land under appraisal is industrial land and the benefits of the land are realized in the operation of the enterprise and cannot be separated from it, therefore the income-reduction method is not adopted for the appraisal.

As the land under appraisal is industrial land, it is not appropriate to adopt the hypothetical development method for appraisal.

There are no recent land market transactions in the area where the subject site is situated, therefore the market comparison approach is not adopted for the appraisal.

As there is a comprehensive system of benchmark land premiums and revisions in the area where the subject site is situated, the benchmark land premium coefficient revision method can be adopted for the valuation.

The formula for calculating the benchmark land value for valuation using the benchmark land value coefficient modification method is as follows:

Unit price of the land = (applicable benchmark land value x period date modification coefficient x comprehensive modification coefficient \pm modification for difference in development level) x period modification coefficient

3. Major Assumptions Adopted in the Valuation Report

The key assumptions used in the Valuation Report are set out below

(I). Prerequisite assumptions

1. Transaction assumption: A basic premise assumption for asset valuation, which assumes that the subject of valuation is already in the process of a transaction, and the appraiser conducts a valuation based on a simulated market, such as the terms of the transaction of the subject to be appraised;
2. Continuing use assumption: It is assumed that the assessed assets will continue to be used in their original location.

(II). General Assumptions

1. There will be no major changes in the country's current macroeconomy;
2. There have been no significant changes in the socio-economic environment in which the assets are situated and the policies on taxation and tax rates enforced;
3. The values of the parameters for this appraisal are determined in accordance with the constant price system, without taking into account the impact of inflationary factors.

(III). Special Assumptions

1. This valuation is subject to the specific valuation purposes set out in this Valuation Report;
2. Each of the assets under appraisal is premised on the actual inventory as of the Valuation Reference Date, and the current market value of the relevant assets is based on the effective domestic prices as of the Valuation Reference Date;
3. It is assumed that the process of purchasing, acquiring and constructing the assets subject to appraisal is in compliance with relevant national laws and regulations.
4. The appraisal does not take into account the impact on the Appraised Value of the collateral that may be assumed in the future, the additional price that may be paid by the special counterparty, etc., nor does it take into account the impact on the asset price of changes in the country's macroeconomic policies and the impact on the asset price in the event of natural forces and other force majeure.