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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)

**ANNOUNCEMENT
CONNECTED TRANSACTION
ACQUISITION OF BEIJING COMPOSITE**

EQUITY TRANSFER AGREEMENT IN RELATION TO THE ACQUISITION

On 25 October 2024, CNBM United Investment (a wholly-owned subsidiary of the Parent of the Company) entered into the Equity Transfer Agreement with Sinoma Science & Technology (a non-wholly owned subsidiary of the Company), in relation to a proposed Acquisition of approximately 4.1349% equity interests in Beijing Composite by Sinoma Science & Technology from CNBM United Investment, in consideration for cash.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of the announcement, 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. As CNBM United Investment is a wholly-owned subsidiary of the Parent, it constitutes a connected person of the Company. Therefore, the Acquisition by Sinoma Science & Technology of approximately 4.1349% equity interests in Beijing Composite held by CNBM United Investment constitutes a connected transaction of the Company.

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

1. PRINCIPAL TERMS OF THE EQUITY TRANSFER AGREEMENT

Date	25 October 2024
Parties	(1) Sinoma Science & Technology, as purchaser; and (2) CNBM United Investment, as seller.
Target Equity Interests	Approximately 4.1349% of the equity interests in Beijing Composite held by CNBM United Investment.
Nature of transaction	Sinoma Science & Technology will purchase approximately 4.1349% of the equity interests in Beijing Composite from CNBM United Investment, in consideration for cash. After the Acquisition, Sinoma Science & Technology will hold approximately 90.0793% equity interests in Beijing Composite and CNBM United Investment will no longer hold equity interests in Beijing Composite.
Amount and basis of the Consideration	<p>The Consideration of the Target Equity Interests was determined based on the Valuation Report issued by the Independent Valuer and amounted to RMB54.4443 million, all of which will be settled in cash.</p> <p>If Beijing Composite distributes dividends to CNBM United Investment during the period from the Valuation Reference Date of the Valuation Report to the date when Beijing Composite's shareholding is transferred to Sinoma Science & Technology, the amount of this equity transfer shall be adjusted down accordingly.</p> <p>The portion of the Profits or Losses for the Period of Beijing Composite to which CNBM United Investment is entitled in proportion to its shareholding shall be borne or enjoyed by CNBM United Investment in accordance with the proportion of its shareholding prior to the transfer, and the total Consideration for this Acquisition = Appraised Value as at the Valuation Reference Date + Profits or Losses for the Period – dividends (if any).</p>
Payment of the Consideration	The cash consideration payable by Sinoma Science & Technology, to CNBM United Investment will be paid in the following manner:

- (1) The parties agree that Sinoma Science & Technology shall pay RMB54.4443 million in cash in a lump sum to the designated account of CNBM United Investment within 10 business days after the effective date of the Equity Transfer Agreement;
- (2) Within 10 business days after the date of transfer of the Target Equity Interests, Beijing Composite shall engage an auditing organization to conduct a special audit on the Profits or Losses for the Period. If there is a profit during the transition period, Sinoma Science & Technology shall pay CNBM United Investment's entitlement to the profit in cash in a lump sum to CNBM United Investment's designated account; and if there is a loss during the transition period, CNBM United Investment shall pay Sinoma Science & Technology's compensation in cash in a lump sum to Sinoma Science & Technology's designated account. If there is a distribution of dividend, it shall be deducted in the payment made by Sinoma Science & Technology to CNBM United Investment. The payment shall be made within 10 business days after the issuance of the audit report.

**Arrangements relating to
tax payments**

All other taxes (if any) arising from the transfer of Target Equity Interests under the Equity Transfer Agreement will be borne by CNBM United Investment and Sinoma Science & Technology respectively in accordance with the relevant laws, regulations and policies in the PRC.

Effectiveness

The Equity Transfer Agreement shall become effective after it has been signed by the legal representatives or authorized representatives of both parties and stamped with the company's seal, and the equity transfer has been approved by the competent authorities of both parties.

2. VALUATION OF TARGET EQUITY INTERESTS

According to the Valuation Report, as at the Valuation Reference Date (i.e. 31 December 2023), the total value of the Target Equity Interests appraised by the Independent Valuer using the income approach was RMB54.4443 million. Please see the summary of the Valuation Report containing, among other things, the valuation approach, assumptions and key inputs in the Appendix I of this announcement.

3. PROFIT FORECAST

Since the Consideration in respect of approximately 4.1349% of the equity interests of Beijing Composite is based on the Appraised Value in the Valuation Report adopting the discounted cash flow method which is a type of income approach, the amount of Consideration constitutes a profit forecast under Rules 14A.06(32) and 14.61 of the Listing Rules. Therefore, Rules 14A.68(7) and 14.62 of the Listing Rules shall apply.

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

The Board has confirmed that the profit forecast has been made after due and careful enquiry by the Board. Please see the letter from the Board in Appendix III of this announcement.

Expert qualification, consent and opinions

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

Name	Qualification
Moore CPA Limited	Certificate Public Accountants

As at the date of this announcement, the expert listed above does not have 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 since 31 December 2023, being the date to which the latest published audited financial statements of the Group were made up.

The expert listed above has given and has not withdrawn its consent to the issue of this announcement with the inclusion of its opinion and letter and reference to its name in the form and context in which it appears.

4. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition is beneficial for the Group to strengthen the centralized management of shareholding, improve the efficiency and reduce the cost of decision-making. Meanwhile, the operation of Beijing Composite is sound and its profitability is optimistic, and the acquisition of shares of Beijing Composite is beneficial for the Group to obtain future income in a stable manner.

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

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

5. INFORMATION ON RELEVANT PARTIES AND BEIJING COMPOSITE

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.

Sinoma Science & Technology

Sinoma Science & Technology is a non-wholly owned subsidiary of the Company and is principally engaged in the business of wind power blades, glass fibre and lithium battery separator. Its A shares are listed and traded on the Shenzhen Stock Exchange (stock code: 002080).

CNBM United Investment

CNBM United Investment is a wholly-owned subsidiary of the Parent, and is principally engaged in investment management, assets management and investment consultation.

Beijing Composite

Beijing Composite is principally engaged in the research and development, production and sale of glass steel, composite materials and raw materials, resin and other products.

The approximately 4.1349% equity interests in Beijing Composite were transferred from China National Materials Group Corporation Ltd. (中國中材集團有限公司) to CNBM United Investment at nil consideration in May 2023.

Upon completion of the Acquisition, Sinoma Science & Technology will hold approximately 90.0793% equity interests in Beijing Composite and CNBM United Investment will cease to hold equity interests in the Beijing Composite.

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

	Net asset value <i>(RMB million)</i>	Appraised Value <i>(RMB million)</i>
Beijing Composite	509.54	1,316.71

Pursuant to the audited accounts prepared in accordance with generally accepted accounting principles of the PRC, the net profits (before and after taxation) of Beijing Composite for the financial years ended 31 December 2022 and 2023 are as follows:

	For the financial year ended 31 December 2022		For the financial year ended 31 December 2023	
	Net profit before tax <i>(RMB million)</i>	Net profit after tax <i>(RMB million)</i>	Net profit before tax <i>(RMB million)</i>	Net profit after tax <i>(RMB million)</i>
Beijing Composite	206.8389	197.4617	231.3470	220.5021

6. IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, 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. As CNBM United Investment is a wholly-owned subsidiary of the Parent, it constitutes a connected person of the Company. Therefore, the Acquisition by Sinoma Science & Technology of approximately 4.1349% equity interests in Beijing Composite held by CNBM United Investment constitutes a connected transaction of the Company.

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

7. DEFINITIONS

“Acquisition” the acquisition of CNBM United Investment's approximately 4.1349% equity interests in Beijing Composite by Sinoma Science & Technology under the Equity Transfer Agreement

“Appraised Value”	the appraised value of Beijing Composite in the Valuation Report
“Beijing Composite”	Beijing Composite Materials Co., Ltd.* (北京玻鋼院複合材料有限公司)
“Board”	the board of Directors of the Company
“CNBM United Investment”	CNBM United Investment Co., Ltd. (中建材聯合投資有限公司), a company incorporated under the laws of the PRC with limited liability, which is a wholly-owned subsidiary of the Parent 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
“Consideration”	the cash consideration paid by Sinoma Science & Technology to CNBM United Investment for the Acquisition
“Directors”	the directors of the Company
“Equity Transfer Agreement”	the equity transfer agreement dated 25 October 2024 entered into between CNBM United Investment and Sinoma Science & Technology in connection with the Acquisition
“Group”	the Company and its subsidiaries from time to time
“Handover Reference Day”	the end of the previous month if the date of transfer of the Target Equity Interests is before the 15th of the current month; the end of the current month if the date of transfer of the Target Equity Interests is after the 15th of the current month, it is the end of the current month.
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Valuer”	Beijing YaChao Assets Appraisal Co., Ltd.* (北京亞超資產評估有限公司)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Parent”	China National Building Material Group Co, Ltd.* (中國建材集團有限公司), the parent company of the Company
“PRC”	the People’s Republic of China (excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purpose of this announcement)
“Profits or Losses for the Period”	The period from the Valuation Reference Date to the Handover Reference Date is the transition period. During the transition period, the increase or decrease in Beijing Composite’s net attributable profit due to profit or loss is recognized as profit or loss for the period.
“RMB”	Renminbi, the lawful currency of the PRC
“Sinoma Science & Technology”	Sinoma Science & Technology Co., Ltd. (中材科技股份有限公司), a company incorporated under the laws of the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002080)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Equity Interests”	The approximately 4.1349% equity interests held by CNBM United Investment in Beijing Composite which are agreed to be acquired by Sinoma Science & Technology
“Valuation Reference Date”	31 December 2023, the reference date of valuation of the Target Equity Interests in the Valuation Report
“Valuation Report”	The Valuation Report of the appraised value of the equity interests of Beijing Composite as at 31 December 2023 (Beijing Yachao Baopingzi (2024) No.A167)《評估報告》(北京亞超評報字(2024)第A167號) produced by the Independent Valuer for the Acquisition
“%”	per cent

On behalf 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 Jiaxiang, 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 I – SUMMARY OF THE VALUATION REPORT

According to the Valuation Report issued by Beijing YaChao Assets Appraisal Co., Ltd.* dated 19 August 2024, the value of the Target Equity Interests as at the Valuation Reference Date (i.e. December 31, 2023), which was assessed using the income approach, was RMB54.4443 million.

1. Subject and Scope of Valuation

The subject of the valuation was the value of 4.1349% equity interests of Beijing Composite, and the scope of the valuation was all assets and liabilities of Beijing Composite as declared and audited.

2. Reasons for Selection of Income Approach

From the point of view of assessment methodological considerations, the asset-based approach mainly adopts the replacement cost method of valuation and does not consider the impact of future business risks on the valuation conclusion. The income approach makes reasonable projections of the future operating revenues and operating costs of an enterprise and arrives at the valuation conclusion by discounting and summing the future free cash flows.

The income approach seeks to determine the value of an enterprise from its future profitability. The income approach makes projections of the enterprise's future operating revenues and operating costs, and sums up the discounted future net cash flows to arrive at an appraisal conclusion. The asset-based approach derives enterprise value from the re-acquisition of assets. The asset-based approach evaluates each asset and liability on the balance sheet of a company separately and adds them together to obtain the appraised value of the entire shareholders' equity, without considering the impact of future risks and returns on the appraisal conclusion.

In view of the fact that Beijing Composite has been in operation for many years, has stable sales and procurement channels and customer resources, and has good operating results and business reputation, the asset-based method only reflects the amount required for reconstruction from the perspective of acquisition, and cannot appropriately reflect the excess income generated from the asset portfolio, the appraisal value derived from the income was selected for this appraisal as the final conclusion of the appraisal.

3. Key Assumptions Adopted in the Valuation Report

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

(I). Basic assumptions

1. Trading assumption

The trading assumption assumes that all assets to be appraised are already in the process of being traded, and the appraiser simulates the market and makes a valuation based on the trading conditions of the assets to be appraised. The trading assumption is the most basic premise on which an asset appraisal can be conducted.

2. Open market assumption

The open market assumption assumes that both parties to assets traded or intended to be traded in the market are on an equal footing with each other, and that each party to assets transaction has the opportunity and time to obtain sufficient market information to enable it to make a rational judgment as to the function and use of the asset, as well as its transaction price, etc. The open market assumption is based on the assumption that the assets are publicly tradable in the market.

3. Asset going concern assumption

The asset going concern assumption is the assumption that the assets under appraisal will continue to be used in the manner, scale, frequency, and environment in which they are currently used, or will be used on a changed basis, and that the appraisal methodology, parameters, and bases will be determined accordingly.

4. Business continuity assumption

The business continuity assumption refers to the assumption that the appraised entity will continue to operate as a going concern in a manner consistent with that of the present.

(II). General assumptions

1. There has been no material change in the socio-economic environment in which the appraised entity is situated, and there has been no material change in the relevant laws, regulations and policies of the State and the region in which the appraised entity is situated;
2. It is assumed that the information provided by the trustor and the appraised entity is true, complete and reliable, and that there are no other defects or matters that may affect the appraisal conclusion that should have been provided but have not been provided or that the asset appraisal professionals have not been able to obtain despite having performed the necessary appraisal procedures;

3. It is assumed that no irresistible and unforeseeable event affecting the operation of the appraised entity will occur after the Valuation Reference Date;
4. Assuming that there will be no material changes in the laws and regulations relating to the operation of the appraised entity during the income period, other than those laws and regulations that have been promulgated by the government and those that have been promulgated but have not yet come into operation as at the Valuation Reference Date;
5. It is assumed that changes in exchange rates, interest rates, taxes and inflation relating to the operations of the appraised entity after the Valuation Reference Date will not materially affect its operating conditions during the income period;
6. It is assumed that the accounting policies to be adopted by the appraised entity in future income periods will be consistent in material respects with those at the Valuation Reference Date, and will be continuous and comparable;
7. It is assumed that the operator of the appraised entity is responsible and the management is capable of assuming its responsibilities, that no material changes affecting changes in the operation of the appraised entity will occur in the future income period in respect of the key management and technical personnel of the appraised entity on the basis of their status as at the Valuation Reference Date, that the management team develops steadily, and that there are no material changes in the management system affecting the operation of the appraised entity;
8. It is assumed that no litigations, mortgages, guarantees, etc., which will have a material impact on the results of operations of the appraised entity will occur in the future income periods;
9. There are no other force majeure and unforeseeable factors having a material adverse impact on the enterprise.

(III). Assumptions of this valuation

1. The scope of business, mode of operation and mode of management of the appraised entity can be adjusted and innovated in a timely manner in line with the development of the market and science and technology on the basis of consistency;
2. The assets and liabilities declared by the appraised entity are free from disputes over property rights and other economic disputes;
3. The production and operation of the appraised entity and its economic behaviors related to production and operation are in compliance with national laws and regulations;

4. There will be no material changes in the future interest rates of loans, value-added tax and surtax rates and enterprise income tax rates;
5. The appraisal shall not take into account the impact on the value of the appraised entity of external equity investment projects occurring after the Valuation Reference Date;
6. The future sources of capital and costs of research and development and production of the appraised entity will not have any material adverse impact on the enterprise;
7. Except for investments in fixed assets for which there is conclusive evidence as at the Valuation Reference Date that there will be changes in production capacity in the future, the production capacity of the enterprise's products is estimated on the basis of the status quo as at the Valuation Reference Date on the assumption that the appraised entity will not engage in any significant investment activities in fixed assets in the future income period which will have an impact on the operation of the appraised entity;
8. It is assumed that the appraised entity will maintain a turnover of accounts receivable and accounts payable similar to that of the historical year in future income periods, and that there will be no defaults on payment of goods that are materially different from those of the historical year;
9. It is assumed that the operating cash inflows and cash outflows of the appraised entity in the future income periods will occur evenly, and there will not be any concentration of revenue recognition at a certain point in the year;
10. The enterprise is currently a high-tech enterprise, and this appraisal assumes that the certificate of high-tech enterprise can continue to be obtained after its expiry;
11. Beijing Composite (Teng Zhou) Materials Co., Ltd. rents its 5-axis gantry machining center from Jiang Su Yue Ke New Materials Company Limited, and it is assumed in the current assessment that the lease can be renewed upon expiry;
12. It is assumed that the enterprise's future revenue can be realized according to its budget without significant deviation.

4. Predictive Modeling and Forecast Period

(I). Predictive Modeling

The discounted cash flow method is adopted for this income approach appraisal, and the selected cash flow channel is the free cash flow of the enterprise, so as to indirectly obtain the value of the entire shareholders' equity through the appraisal of the overall value of the enterprise.

The appraisal is based on the net free cash flows of the enterprise in certain future years, which are discounted using an appropriate discount rate and then summed up to arrive at the value of the enterprise's operating assets as a whole, and then added to the value of surplus assets and non-operating assets less interest-bearing liabilities to arrive at the value of the entire shareholders' equity.

The discounted cash flow method is selected for this valuation, whereby the free cash flow of the enterprise was used as a quantitative indicator of the enterprise's expected earnings, and a matching weighted average cost of capital (WACC) model was used to calculate the discount rate.

Calculation formula:

Value of Total Shareholders' Equity = Value of Operating Assets + Value of Surplus Assets + Value of Non-Operating Assets - Value of Non-Operating Liabilities

(II). Forecast Period

Due to the normal operation of Beijing Composite as at the Valuation Reference Date, there is no limitation on the useful life of the core assets affecting the continued operation of the enterprise, and there is no limitation on the duration of production and operation of the enterprise or the duration of ownership of the investors, etc., which may be utilized in a sustainable manner by way of continuity. Therefore, it is assumed in the Valuation Report that Beijing Composite will continue to operate in the future after the Valuation Reference Date (i.e. 31 December 2023) and the corresponding income period will be unlimited. Since the income of the enterprise in the near future can be reasonably predicted while the reasonableness of the forecast of the income in the long term is relatively poor, in accordance with general valuation practice, the asset valuation professional will categorize the income period of the enterprise into two stages, namely, during the period of definite prediction and after the period of definite prediction. That is, operating business value = definite forecast period value + value after definite forecast period (terminal value).

After conducting a comprehensive analysis, the valuation professionals have determined that the valuation base date to December 2027 is the definite forecast period and the period after 2028 is the perpetuity period.

5. Revenue Forecasts for the Forecast Period

(I). Forecast of operating income

Beijing Composite is engaged in industrial manufacturing, and this appraisal adopts the enterprise cash flow model, and the corresponding discount rate is determined by WACC.

The revenue of Beijing Composite has grown relatively fast in recent years, mainly due to the commissioning of its subsidiary in Teng Zhou and the release of production capacity. In 2023, the pultruded beam business of Beijing Composite has been transferred, resulting in a decrease in revenue.

For other products, the 2024 forecast is based on the enterprise's 2024 budget and current actual completion, the enterprise's history of the last three years of faster growth in operating revenues is due to the release of production capacity in Teng Zhou, which has led to rapid growth, and with the completion of the release of production capacity, the growth in revenues has entered into a period of plateauing. It is expected that by 2027, the annual growth rate will be 5% and will not change in subsequent years.

(II). Forecast of operating costs

The costs of Beijing Composite are mainly purchased raw materials, purchased fuel and power, wages and benefits and other manufacturing costs. The forecast of operating costs for 2024 is mainly based on the budget for 2024 and the actual completion of the current projections, and the forecasts for the following years are based on the growth rate of revenues in respect of the variable costs and the depreciation expenses in accordance with the actual situation. the forecast of operating costs for 2024 is mainly based on the budget for 2024 and the actual completion of the current projections.

(III). Forecast of Other Revenues

Other revenues are Yanqing District Support Fund and Disability Protection Subsidy, projected based on current agreements. Other revenues are projected based on historical conditions.

(IV). Forecasts of administrative expenses, selling expenses, research and development expenses, and financial expenses

Management expenses: Management expenses include wages and salaries, travel expenses, utilities, office expenses, and other items. For the purpose of this valuation, the forecast is made with reference to actual historical data and taking into account a certain amount of growth.

Selling expenses: Selling expenses include items such as transportation costs. For the purpose of this appraisal, the increase in operating expenses due to growth in revenues was projected with reference to actual historical data.

R&D expenses: R&D expenses for 2024 are forecasted based on the enterprise's budget, and R&D expenses for future years are determined on the basis of 2024, taking into account a certain amount of growth.

Finance expenses: interest expense is projected based on the enterprise's borrowings and borrowing rates, and interest income and other finance costs are projected based on the enterprise's history.

(V). Forecast of Taxes and Surcharges

Business tax expenses include urban construction tax and education surcharge. The Parent's urban construction tax rate is 7% of the current tax amount, the subsidiaries' urban construction tax rate is 5% of the current tax amount, and the consolidated urban construction tax rate is determined based on the proportion of the Parent's and subsidiaries' revenues as 6.0% of the current tax amount, and the surcharges on education fees and local education fees are 5% of the current tax amount. The stamp duty rate is 0.05% of the contract amount. Sales tax is calculated based on sales revenue, and input tax is calculated based on purchased materials, etc. to arrive at the amount of current tax.

(VI). Forecast of depreciation and amortization

Property, plant and equipment are assessed for depreciation and amortization. Property, plant and equipment are stated at actual cost as of acquisition. Depreciation is provided using the annual life method without taking into account any provision for impairment, and the categorized depreciation rates are determined based on the estimated useful lives of the property, plant and equipment and the estimated net residual value ratios.

(VII). Forecast of capital expenditure

After checking with the enterprise, capital expenditures are mainly composed of three parts: normal renewal expenditures for stock assets (replacement expenditures), capital expenditures for incremental assets (expansion expenditures) and normal renewal expenditures for incremental assets (replacement expenditures).

The subsequent expenditure of Beijing Composite for the project under construction is RMB45,699,602.18 (2024). In addition to this, in future years, Beijing Composite will only need to ensure the normal production of the assets by carrying out repairs and maintenance on the assets. This forecast of future capital expenditures for renewals is based on the condition of the assets.

(VIII).Determination of Working Capital Forecast and Increase in Working Capital

Working capital is projected based on the ratio of working capital to operating revenue in historical years.

The amount of working capital required for 2024 is determined based on the ratio of revenues to working capital for 2024, and the amount of working capital required to be replenished in 2024 is determined by deducting working capital from the books, and the amount of working capital required for subsequent years is projected based on the net increase in operating revenues and the ratio of working capital to operating revenues in the previous year.

6. Determination of Discount Rate

(I). Selection of discount rate

The weighted average cost of capital (WACC) is selected as the discount rate for this appraisal.

WACC is the cost of capital determined by combining the risks and returns of various long-term capital sources of an enterprise; long-term capital sources of an enterprise include shareholders' investment, bonds, bank loans, finance leases and retained earnings, etc. Creditors and shareholders investing capital in a particular enterprise expect to be compensated for the opportunity cost of their investment; WACC refers to the cost of individual capital obtained by various methods of capital raising weighted as the proportion of the capital obtained by each method of raising capital to the total amount of capital. The weighted average cost of capital is calculated by taking the proportion of capital raised by a particular fundraising method to the total amount of capital as the weighted average of the costs of the individual capitals obtained by the various fundraising methods. The formula is as follows:

$$WACC = Re \times [E / (E + D)] + Rd \times (1 - T) \times [D / (E + D)]$$

Where: E – market value of equity

D – market value of debt

Re – cost of equity capital

Rd – cost of debt capital

T – income tax rate applicable to the appraised entity

The cost of equity capital is calculated using the Capital Asset Pricing Model (CAPM).

The calculation formula is as follows:

The capital structure of the Target Enterprise under appraisal was estimated from the perspective of the enterprise's business strategy and determined by calculating the ratio of equity to debt in the market value.

Taking into account the actual situation of the enterprise, the actual capital structure of the enterprise during the period of continuing operation is consistent with the target capital structure, with the capital structure of equity $E/(E+D)=79.42\%$ and debt $D/(D+E)=20.58\%$ respectively.

(II). Determination of discount rate parameters

Re – cost of equity capital

In accordance with international practice, the cost of equity capital is estimated using the CAPM, and the formula is as follows:

$$Re = Rf + (Rm - Rf) \times \beta + Rc$$

Where: Rf – risk-free rate of return

β – systematic risk coefficient of equity

Rm – the average market rate of return

$(Rm-Rf)$ – market risk premium

Rc – enterprise-specific risk adjustment factor

① Systematic risk factor β :

Beta coefficient β is calculated and determined based on the estimated beta parameters of the listed companies of Shanghai and Shenzhen A-share stocks similar to the Company as queried by IFIND information, and the specific determination process is as follows:

Firstly, the Beta of each company without financial leverage was calculated based on the published Beta of similar listed companies, and then the Beta of the target company was calculated based on the average Beta without financial leverage and the target capital structure D/E of the company calculated above.

The calculation formula is as follows:

$$\beta_L = (1 + (1 - T) \times D/E) \times \beta_U$$

In the formula: β_L – Beta with financial leverage

D/E – Debt to Equity Ratio of similar publicly traded companies according to public announcements

β_U – Beta without financial leverage

T – Income tax rate

The evaluators selected the weighted average of the original β -values of the three relevant companies listed and traded, Jiangsu Huaxicun Co., Ltd., Tayho Advanced Materials Group Co., Ltd. and Jilin Chemical Fiber Co. Ltd., for the last 36 months as at the Valuation Reference Date, and the value of the beta value for the current valuation, as corrected for the capital structure, is taken as follows: $\beta = 0.7942$.

② Rf – Risk-free rate of return

Risk-free rate of return is the compensation for the time value of money, this compensation is divided into two aspects, on the one hand, the average rate of return in the absence of inflation, no risk, is the compensation for the transfer of the right to use capital; on the other hand, the additional rate of inflation, is due to inflation caused by the decline in purchasing power compensation. Together they constitute the risk-free rate. According to IFIND, the weighted average of the interest rate to maturity for bonds with a maturity period of 10 years or more is 3.49%.

③ “ERP” (Rm-Rf) – Market Risk Premium

Market Risk Premium is the excess of an investor’s expectation over the risk-free rate of return for investing in the equity market. The CSI 300 Index is more in line with internationally accepted rules and its 300 constituent stocks better reflect the state of the Chinese stock market. In this evaluation, the evaluators used Wind’s data system to provide the year-end trading closing prices of the selected constituents for each year, and chose 10 years as the calculation period for the ERP calculation to calculate the average rate of return of each constituent of the CSI 300 in China. Since the geometric mean can better express the growth of the return and the theoretical life span of the subject companies in this evaluation is infinite, it is more appropriate to adopt the ERP with a period of more than 10 years for the market risk premium in this evaluation, which is taken as 10.41%.

④ Rc – Enterprise-specific risk adjustment factor

Considering the strengths and weaknesses of the enterprise’s production and operations and those of the reference enterprise, market interest rate risk, inflation risk and market and industry risk, the measurement of the enterprise’s individual risk adjustment factor Rc was determined as detailed in the following table:

Based on the above data measurements, Re is calculated as:

Project		Risk Value
1	Enterprise Size	1.51%
2	Business stage of the enterprise	0.00%
3	Financial risk of the enterprise	0.00%
4	Stage of development of main products	0.20%
5	Distribution of business operations\products and regions of the enterprise	0.20%
6	Internal management and control mechanism of the enterprise	0.20%
7	Experience and qualifications of management	0.20%
8	Reliance on key customers and suppliers	0.20%
Total		2.51%

$$Re = Rf + (Rm - Rf) \times \beta + Rc$$

The cost of equity capital is 14.27%.

Rd – Cost of Debt Capital

The interest rate now in effect for loans with a maturity of 5 years or more is 4.30%. This rate is used as the cost of debt capital for this valuation.

(III). Determination of discount rate

Based on the results of the above data measurement, the WACC is calculated as:

$$\text{WACC} = R_e \times [E/(E+D)] + R_d \times (1-T) \times [D/(E+D)]$$

$$= 79.42\% \times 14.27\% + 20.58\% \times (1-15\%) \times 4.20\%$$

$$= 12.07\%$$

7. Operating Assets (P)

After summarizing the above analysis, the free cash flow statement of the enterprise was derived, and further discounted to obtain the Appraised Value of the enterprise's operating assets of RMB1,422,066,700,000.

8. Determination of The Value of Surplus Assets (C1), Non-Operating Assets (C2) and Liabilities (C3)

As at the Valuation Reference Date, the appraised entity did not have excess assets. Non-operating assets amounted to RMB299,248,230.91 and non-operating liabilities amounted to RMB210,442,907.26.

9. Enterprise Value (V)

$$V = P + C1 + C2 - C3$$

$$= 1,422.0667 + 0.00 + 299.2482 - 210.4429$$

$$= 1,510.8720 \text{ (in RMB million)}$$

10. Interest-Bearing Liabilities (D)

The assessed entity's interest-paying liabilities were short-term borrowings of RMB71,047,200,000 and interest-bearing borrowings (recorded in other payables) with a carrying value of RMB3,114,400,000. Another RMB120 million of group loans were included in long-term payables. The total is RMB194,161,700,000.

11. Value of Total Shareholders' Equity (E) Valuation Conclusion

$$E = V - D$$

$$= 1,510.8720 - 194.1617$$

=1,316.7104 (in RMB million)

12. The Final Conclusion of the Valuation

The Appraised Value of the entire equity interests of Beijing Composite was RMB1,136,710,400, with an increased value of RMB807,170,200, representing an appreciation rate of 158.41%.

The value of 4.1349% equity interests in NBG is calculated as follows:

$131,671.04 \times 547.70 / 13245.88 = \text{RMB}54.4443 \text{ million.}$

The value of 4.1349% equity interests in Beijing Composite is RMB54.4443 million.

The appraisal has not considered the impact of the minority interest discount on the appraisal conclusion or the impact of liquidity on the appraisal conclusion.

13. Sensitivity Analysis

After analyzing and comparing, income and discount rate are identified as sensitivity factors.

In this assessment, income is taken to decrease by 10%, 5% and increase by 10%, 5% respectively, and discount rate is taken to increase by 1%, 2% and decrease by 1%, 2% respectively of the existing discount rate, the corresponding different assessment results are shown in the table below.

Assessed Value With Separate Changes in Sensitivities (in RMB million)

Parameters		Income				
		Decrease by 10%	Decrease by 5%	Normal	Increase by 5%	Increase by 10%
Discounted Rate	11.07%	1,209.1961	1,325.8103	1,442.4245	1,559.0387	1,675.6529
	11.57%	1,155.5586	1,266.2875	1,377.0163	1,487.7452	1,598.474
	12.07%	1,106.0788	1,211.3946	1,316.7104	1,422.0261	1,527.3419
	12.57%	1,060.2916	1,160.6127	1,260.9338	1,361.2548	1,461.5759
	13.17%	1,017.7991	1,113.4979	1,209.1966	1,304.8954	1,400.5942

14. Description of Major Special Issues

The following major special matters have been identified in the course of the appraisal which may affect the conclusion of the appraisal but are beyond the level of practice and competence of asset appraisal professionals in assessing the appraisal:

- (1) The existence of incomplete or defective information in respect of ownership of part of the property, but the appraised entity has issued a declaration of ownership document as the actual owner of the property to prove that the ownership of that part of the property is not in dispute;
- (2) The nature and amount of guarantees, leases and contingent liabilities (contingent assets) and their relationship to the subject of appraisal: It is assumed that a lease can be renewed upon expiry of the lease contract; some of the building leases and equipment leases have been considered as non-operating assets;
- (3) In February 2024 and August 2024, the LPR interest rate was lowered twice, and the impact of the change in the LPR interest rate after the base date was not considered in this appraisal;
- (4) For part of the scrapped assets, the valuation was estimated based on the recoverable value;
- (5) The profit forecast information provided by Beijing Composite to the asset appraisal organization is the basis of the income approach of the appraisal report; the utilization of the future profit forecast data by the asset appraisal organization is not a guarantee of the future profitability of Beijing Composite;
- (6) The conclusion of the appraisal is that the asset appraisal professionals were unable to conduct technical tests on the technical parameters and performance of the various equipment as at the Valuation Reference Date, and that the judgment was made on the assumption that the relevant technical information and operation records provided by the appraised entity were true and valid, and through understanding the use of the equipment from the equipment managers and operators as well as through on-site inspections;
- (7) The conclusion of this appraisal that the asset appraisal professionals have not carried out any technical inspection of the concealed works and internal structure (parts not observable by the naked eye) of the various buildings and structures, and the judgment made through on-site investigation without the aid of any inspection equipment on the premise that the relevant engineering information provided by the appraised entity is true and valid;

- (8) The appraisal conclusion in the report reflects the market value of the subject of appraisal determined in accordance with the open market principle for the purpose of this appraisal without taking into account the relevant fees and taxes to be borne in the process of property registration or change of ownership of the assets, and without providing for any tax adjustments in respect of the appreciation in value of the assets under appraisal.

APPENDIX II – REPORT FROM THE REPORTING ACCOUNTANT

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



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會計師事務所有限公司
大華馬施雲

INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE APPROXIMATELY 4.1349% EQUITY INTERESTS IN BEIJING COMPOSITE MATERIALS CO., LTD. (“BEIJING COMPOSITE”)

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 YaChao Assets Appraisal Co., Ltd dated 19 August 2024 in respect of the approximately 4.1349% equity interests in Beijing Composite as at 31 December 2023 (the “**Valuation**”) is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and will be included in an announcement of the Company dated 25 October 2024 in connection with the acquisition of the approximately 4.1349% equity interests in Beijing Composite (the “**Announcement**”).

Directors’ responsibility for the discounted future estimated cash flows

The directors of the Company (the “**Directors**”) are 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 APPENDIX I, “SUMMARY OF THE VALUATION REPORT” to the Announcement (the “**Assumptions**”). This responsibility includes 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.

Our 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 (HKSQM) 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” issued by the HKICPA, 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’ responsibility

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 14.60A 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 all material respects, in accordance with the Assumptions. Our work was limited primarily to making inquiries of the management of the Company 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 Beijing Composite.

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 CPA Limited

Certified Public Accountants

Cheung Sai Kit

Practising Certificate Number: P05544

Hong Kong, 25 October 2024

APPENDIX III – LETTER FROM THE BOARD

25 October 2024

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

Dear Sirs,

CONNECTED TRANSACTION – ACQUISITION OF BEIJING COMPOSITE

We refer to the Valuation Report (Beijing Yachao Baopingzi (2024) No.A167) dated 19 August 2024 in relation to the appraised value of the equity interests of Beijing Composite Materials Co., Ltd.* (北京玻鋼院複合材料有限公司) (“**Beijing Composite**”) as at 31 December 2023 prepared by Beijing YaChao Assets Appraisal Co., Ltd.* (北京亞超資產評估有限公司) (“**Independent Valuer**”) (the “**Valuation**”).

Since the consideration in respect of 4.1349% of the equity interests in Beijing Composite is based on the results of Valuation adopting the value of the discounted cash flow method which is a type of income approach, the amount of consideration constitutes a profit forecast under Rules 14A.06(32) and 14.61 of the Listing Rules and accordingly, Rules 14A.68(7) and 14.62 of the Listing Rules are applicable. We have discussed with the Independent Valuer about different aspects including the bases and assumptions upon which the Valuations have been prepared, and reviewed the Valuations for which the Independent Valuer is responsible. We have also considered the reports from our reporting accountant, Moore CPA Limited, regarding whether the Valuations were compiled properly so far as the calculations are concerned.

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

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

Beijing, the PRC

* *For identification purposes only*