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)

FURTHER ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO THE SHARE ACQUISITION IN CARPOLY

Reference is made to the Company's announcement dated 29 December 2023 (the "**Announcement**"). Unless the context otherwise requires, terms defined in the Announcement shall have the same meaning when used herein.

As disclosed in the Announcement, the Share Acquisition Price is agreed based on the Audit Report and Valuation Report, after deducting the dividends proposed to be paid by the Target Group, the valuation of 100% of the Target Company's shares is determined to be RMB5,200,000,000.00, and the transfer price of the Target Shares is RMB4,073,822,613.03. Due to the fact that the valuation of the long-term equity investment value of the Target Company has chosen the valuation results of the income-based method as the valuation conclusion, and the forecast of future returns on long-term investments has not taken into account the allocation of headquarters management expenses borne by the Target Company, the valuation result of the income method can more reasonably reflect the total equity value of the Target Company's shareholders. The Valuation Report adopts the income-based valuation result of RMB6,020.0300 million as the valuation conclusion.

Details of the valuation of the Target Company are provided below.

1. FORECAST MODEL AND FORECAST PERIOD

1.1 Forecast Model

The income method adopted in the valuation arrives at the valuation result by forecasting the expected net cash flow of the subject assets in the future and converting it into current value using appropriate discount rates. The basic conditions for its application are that the enterprise has the requisite basis and conditions for continuing operation, there is a relatively stable correlation between the operation of its assets and its income, and that the future income and risks can be predicted and quantified.

The valuation adopts the income method to indirectly ascertain the value of total shareholders' equity through the valuation of the overall value of the enterprise. The enterprise free cash flow discount model was applied in the income-based valuation model.

The overall value of the enterprise = the value of operating assets + the value of surplus assets + the value of non-operating assets – the value of non-operating liabilities + the value of long-term equity investment

The value of total shareholders' equity = the overall value of the enterprise - the value of interest-bearing liabilities

The rationale of the valuation is to estimate the value of the enterprise based on its audited financial statements. First, the value of operating assets was estimated by using the discounted cash flow method (DCF) according to the income path; the values of surplus assets, non-operating assets or liabilities, etc. were then considered to arrive at the value of total shareholders' equity.

1.2 Forecast Period

The Valuation Reference Date is 31 July 2023.

As the approved business operation period for the Target Company is indefinite and the Target Company's business is stable and its operations are normal as per its development plan and industry characteristics, the revenue period of the Target Company is determined to be perpetual. The specific forecasting period for the valuation is determined to be 5 years and 5 months, i.e., the forecast is until December 2028, and the period after 2029 will be consistent with 2028.

2. THE EARNINGS FORECAST DURING THE FORECAST PERIOD

2.1 The forecast for operating income

The main business of the appraised entity is the sales of exterior wall engineering paint, home decoration interior wall paint, furniture wood paint, art paint, floor paint, industrial paint, ink, home decoration wood paint, ancillary products, among others. The operating income of the appraised entity is the sum of the sales income of the above-mentioned types of products.

In particular, the appraised entity's income from August to December 2023 is mainly estimated with reference to the actual income from August to November 2023 together with orders on hand and the status of expected fulfillment. From 2024 to 2027, the revenue of the various types of products will increase slightly compared to that of the previous year, where the respective growth rates are determined mainly referring to the orders on hand at the end of November 2023 and the status of key customers that are tracked, the overall market size of the various types of products, industry development trends, the appraised entity's industry position, business plan and market share changes, etc.

2.2 The forecast for operation cost

The operation cost of the main business of the appraised entity mainly includes direct production cost of the various types of products, depreciation and amortization, sales freight, etc.

2.2.1 Direct production cost of the various types of products: it mainly includes direct materials, direct labor, manufacturing expenses, etc. consumed in the production of the various types of products. The direct production cost is determined by multiplying the annual revenue of the various types of products during the forecast period by the cost rate of each year during the forecast period. The cost rate during the forecast period is determined based on the analysis of historical annual cost rates.

2.2.2 Depreciation and amortization: it includes depreciation and amortization of fixed assets, intangible assets, etc. The valuation is estimated with reference to the relevant depreciation and amortization accounting estimates performed by the appraised entity.

2.2.3 Sales freight: the freight rate for each year during the forecast period is determined by multiplying the external sales revenue in each year during the forecast period and the freight rate in each year during the forecast period. The freight rate during the forecast period is determined based on the analysis of historical annual freight rates.

2.3 The forecast for taxes and surcharges

The urban construction tax, education surcharge, stamp duty, and environmental protection tax for each year during the forecast period are determined by multiplying the operating income for each year during the forecast period and the proportion of urban construction tax, education surcharge, stamp duty, and environmental protection tax to the operating income. The above ratios are determined based on the analysis of historical annual data. Since the land and real estate of the appraised entity are expected to remain stable during the forecast period, the data of land tax and property tax for the forecast period are based on 2022 data.

2.4 The forecast for sales expenses, management expenses and R&D expenses

2.4.1 Sales expenses: it mainly includes relevant employee salaries, advertising expenses, transportation and travel expenses, office meeting expenses, market development expenses, business entertainment expenses, etc. The sales expenses during the forecast period are determined by multiplying the external sales revenue in each year during the forecast period and the ratio of the above-mentioned detailed expenses to the revenue during the forecast period. Such ratios are determined based on the analysis of historical data.

2.4.2 Management expenses: it mainly includes relevant employee salaries, share-based payment expenses, depreciation and amortization expenses, office expenses, consulting service fees, safety and environmental protection expenses, business entertainment expenses, transportation and travel expenses, intermediary agency expenses, depreciation of use rights, etc. Management expenses are determined with reference to the spending of the detailed expenses in historical years together with the analysis and consideration of future development requirements.

2.4.3 R&D expenses: it mainly includes direct investment costs, labor costs, depreciation of fixed assets, and other costs directly related to R&D activities. The R&D expenses during the forecast period are determined by multiplying the annual operating income in each year during the forecast period by the ratios of the above-mentioned detailed expenses to the income during the forecast period. Such ratios are determined based on the analysis of historical data.

2.5 The forecast for income tax

The appraised entity has a high-tech enterprise qualification certificate. The valuation assumes that the high-tech certificate can still be renewed after expiration to continue to enjoy the preferential income tax rate of 15%. As of the date of this announcement, the high-tech certificate of the appraised entity has been successfully renewed.

2.6 The forecast for depreciation and amortization

Based on the estimation of the future fixed assets and intangible assets expected to be formed by the appraised entity, the depreciation and amortization of the future years shall be calculated based on the accounting estimates of depreciation and amortization of the appraised entity.

2.7 The forecast for capital expenditure

The capital expenditures of the appraised entity during the forecast period, which are mainly maintenance expenditures on existing production equipment, are calculated based on the appraised entity's historical annual maintenance, renewal, transformation and other expenditures on fixed assets.

2.8 The forecast for the increase in working capital

Increase in working capital = working capital of the current year – working capital of the previous year

Working capital of the current year = minimum cash holding + inventories + accounts receivable – accounts payable

Among them, the minimum cash holding is determined based on the actual operating conditions of the appraised entity. The working capital of the current year is determined based on the company's historical annual revenue, revenue during the forecast period, and other data such as account receivables, account payables, prepayments, other receivables, and other payables during the forecast period.

3. DETERMINING THE DISCOUNT RATE

In accordance with the principle of consistency between inputs used in measuring the income amount and discount rate, free cash flow of enterprise is used as the basis of valuation of income amount and the discount rate is determined by the weighted average cost of capital (WACC) model.

$$WACC = ke \times [E/(D+E)] + kd \times (1-t) \times [D/(D+E)]$$

Where:

1) Ke: cost of equity

2) E/(D+E): the estimated target equity ratio of appraised enterprise based on the market value

3) Kd: cost of debt

4) D/(D+E): debt-to-capital ratio based on the target capital structure

5) T: income tax rate

Cost of equity (ke) = rf1 + βe×RPm + rc

Where:

1) rf1: risk-free rate of return

2) RPm: market risk premium

3) Rc: enterprise-specific risk adjustment coefficient

4) βe: market risk coefficient of equity; βe = βu×[1+(1-t)×(D/E)]

In addition:

1) βu: expected unlevered market risk coefficient for comparable companies; βu = βL/[1+(1-t)×(Di/Ei)]

2) βL: expected levered average market risk coefficient for comparable companies

The discount rate in the valuation is 10.47% and the methodology of calculation is detailed below.

3.1 Determining the risk-free rate of return (rf)

The risk-free rate of return reflects the basic value that can be earned when the principal is free of default risk and the expected income is guaranteed. The 2.66% yield on 10-year treasury bond published by the China Central Depository & Clearing Co., Ltd. on the Valuation Reference Date is selected as the risk-free rate of return in the valuation.

3.2 Determining the market risk coefficient of equity (βe)

βe = βu×[1+(1-t)×(D/E)]

In light of the business characteristics of the appraised entity and based on the closeness or similarity between the business of comparable companies and the appraised entity, the appraisers obtained the values of comparable companies as at 31 July 2023 through the iFinD software. The data was then converted to βu based on the income tax rate and capital structure of comparable listed companies, thus arriving at an average βu of 0.9700

in respect of unlevered peer listed companies. Afterwards, the βe of enterprise is calculated by using the target capital structure of appraised entity on the Valuation Reference Date (D/E = 17.61%). The formula of calculation is as follows:

$$\beta e = \beta u \times [1+(1-t)\times(D/E)] = 0.9700 \times (1+(1-15\%)\times 17.61\%) = 1.1152$$

3.3 Determining the market risk premium (RPm)

The market risk premium refers to the difference between the rate of return received from riskier equity and risk-free assets, which generally refers to the excess of average return of constituent stocks of typical stock market index over the average risk-free rate of return (usually refers to the yield of long-term treasury bonds) (Rm-Rf1). The CSI 300 Index is relatively in line with international rules and practice and its 300 constituent stocks can better reflect the situation of China's stock market. In the valuation, the appraisers measured the average yield of each constituent of China's CSI 300 Index with the help of iFinD software, arriving at an 18-year average return (geometric average return and calculated by weekly log returns) of 9.34% (2005-2022), which corresponds to an 18-year average risk-free rate of return (Rf1) of 3.40% (2005-2022). Hence, 5.94% is taken as the market risk premium (Rm-Rf1) in the valuation.

3.4 Determining the enterprise-specific risk adjustment coefficient (rc)

Enterprise-specific risk adjustment coefficient (rc) denotes the unsystematic risk which is the risk adjusted rate of return required due to the factors specific to the appraised entity. When compared with peer listed companies and taking into account of factors as a whole such as the appraised entity' scale of operation, brand awareness and recognition in the market, competitive advantages and disadvantages, assets and liabilities, enterprise-specific risk = scale of operation risk + other risks. Based on the actual situation of the appraised entity, the enterprise-specific risk coefficient (rc) is 2.5% in the valuation.

3.5 Determining the cost of debt (kd)

The one-year loan prime rate (LPR) of 3.55% published by the People's Bank of China is adopted as the cost of debt (kd).

4. DETERMINING THE VALUE OF SURPLUS ASSETS

Surplus assets are assets that are not directly related to the income of an enterprise and are not essential for the operation of the enterprise. After understanding and analysing the situation, the appraised entity do not have any surplus assets as at the Valuation Reference Date.

5. DETERMINING THE NET VALUE OF NON-OPERATING ASSETS AND LIABILITIES

The net value of non-operating assets and liabilities refers to assets and liabilities that are not related to the normal operation of an enterprise and do not generate any benefits. The land use right included in non-operating assets and liabilities was appraised and determined by using the market approach, while the remaining items were appraised and determined by using the cost approach.

6. DETERMINING THE VALUE OF LONG-TERM EQUITY INVESTMENTS

The basic information of long-term investment in the appraised entities at the relevant time on the Valuation Reference Date is set out in the following table:

No.	Name of appraised entities	Shareholding percentage (%)
1	Sichuan Carpoly Paint Co., Ltd.* (四川嘉寶莉塗料有限公司)	100.00%
2	Shanghai Carpoly Paint Co., Ltd.* (上海嘉寶莉塗料有限公司)	100.00%
3	Hebei Carpoly Paint Co., Ltd.* (河北嘉寶莉塗料有限公司)	100.00%
4	Guangdong Natural Tuhuagong Co., Ltd.* (廣東自然塗化工有限公司)	100.00%
5	Guangdong Carpoly Technology Materials Co., Ltd.* (廣東嘉寶莉科技材料有限公司)	100.00%
6	Shanghai Carpoly Building Energy Saving Technology Co., Ltd.* (上海嘉寶莉建築節能科技有限公司)	82.50%
7	Guangdong Carpoly Paint Co., Ltd.* (廣東嘉寶莉塗料有限公司)	100.00%
8	Anhui Carpoly Technology Materials Co., Ltd.* (安徽嘉寶莉科技材料有限公司)	100.00%
9	Guangzhou Carpoly Flooring Materials Co., Ltd.* (廣州嘉寶莉地坪材料有限公司)	65.00%
10	EUROQUIMICA PAINTS, S.A.	30.00%

1) The value of total equity of the wholly-owned and controlling long-term investment shareholders is appraised by using the asset-based approach and income approach respectively, and the appraisal result of income approach is selected as the concluded value of total shareholders' equity for each long-term investee;

2) The appraised values of long-term investment for No.1-8 above are determined by the following formula: appraised value of long-term investment = concluded value of total shareholders' equity for each long-term investee x shareholding percentage of parent company;

3) The shareholder of Guangzhou Carpoly Flooring Materials Co., Ltd.* (廣州嘉寶莉地坪材料有限公司) is Carpoly Group and Zhuhai Zipu Investment Partnership (Limited Partnership)* (珠海自樸投資合夥企業(有限合夥)). At the relevant time on the Valuation Reference Date, the committed capital contribution of Zhuhai Zipu

Investment Partnership (Limited Partnership)* (珠海自樸投資合夥企業(有限合夥)) has not been paid in full. Therefore, the appraised value of the long-term investment = concluded value of total shareholders' equity for Guangzhou Carpoly Flooring Materials Co., Ltd. (Limited Partnership)* (廣州嘉寶莉地坪材料有限公司) + outstanding capital contribution of Zhuhai Zipu Investment Partnership (Limited Partnership)* (珠海自樸投資合夥企業(有限合夥)) x shareholding percentage of parent company. As at the date of this announcement, the committed capital contribution of Zhuhai Zipu Investment Partnership (Limited Partnership)* (珠海自樸投資合夥企業(有限合夥)) has been paid;

4) EUROQUIMICA PAINTS, S.A., the long-term investee in No.10 above, is an equity investment subsidiary of Carpoly Chemical Group Co., Ltd.* (嘉寶莉化工集團股份有限公司). Such long-term investment was appraised on the basis of net book value of EUROQUIMICA PAINTS, S.A. as at the Valuation Reference Date x shareholding percentage of Carpoly Group;

5) When measuring the value of total equity of the wholly-owned and controlling long-term investment shareholders under the income approach, the forecasted operating income, operating cost, taxes and surcharges, management expenses, selling expenses, research and development expenses are basically in line with the projections of the parent company, and the discount rate was calculated in the same manner.

7. DETERMINING THE INTEREST-BEARING LIABILITIES

This refers to the debts that require the payment of interest in the books on the Reference Date, including short-term borrowings, interest-bearing notes payable, long-term borrowings due within one year, long-term loans, bonds payable and long-term payables etc.

Save as the information supplemented above, the other data contained in the Announcement remains unchanged.

On behalf of the Board
China National Building Material Company Limited*
Pei Hongyan
Secretary of the Board

Beijing, the PRC
8 January 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. Chang Zhangli, Mr. Wang Yumeng, Mr. Xiao Jiaxiang, Mr. Shen Yungang and Ms. Fan Xiaoyan 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*