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四川成渝高速公路股份有限公司
Sichuan Expressway Company Limited*

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

(Stock Code: 00107)

CONNECTED TRANSACTION
CAPITAL INCREASE AGREEMENT IN
RELATION TO AN ASSOCIATE OF THE COMPANY

INTRODUCTION

The Board hereby announces that on 18 July 2024 (after trading hours), the Target Company (an associate and a connected person of the Company) entered into the Capital Increase Agreement with all its shareholders, namely Shudao Capital, Chengdu International Aviation and CSI SCE, pursuant to which, Shudao Capital (a member of Shudao Investment Group) agreed to increase its capital to the Target Company (i.e. Shudao Capital will subscribe for RMB1,000,000,000 of the additional registered capital of the Target Company in the amount of RMB1,209,200,000. The RMB209,200,000 in excess of the registered capital will be included in the capital reserve of the Target Company as a capital premium). In particular, Chengdu International Aviation does not participate in the Capital Increase. The Board (including all the independent non-executive Directors) of the Company is of the view that participation in the Capital Increase is not in the interests of the Company and its Shareholders as a whole, and that the non-participation of the Capital Increase will not have any material impact on the normal production and operation and financial position of the Company and is in the interests of all Shareholders of the Company as a whole, and accordingly, CSI SCE, a wholly-owned subsidiary of the Company, does not participate in the Capital Increase.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Controlling Shareholder of the Company is Shudao Investment (which holds 1,035,915,462 A Shares and 183,064,200 H Shares, amounting to 1,218,979,662 Shares in total and representing approximately 39.861% of the total issued share capital of the Company).

Shudao Investment directly holds 46.1553% equity interests in Shudao Capital and indirectly holds 44.9545% equity interests in the Target Company, and thus both Shudao Capital and the Target Company are connected persons (as defined in the Listing Rules) of the Company. Therefore, the Capital Increase constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Capital Increase is more than 0.1% but less than 5%, it is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but is exempted from the independent Shareholders' approval requirements.

INTRODUCTION

The Board hereby announces that on 18 July 2024 (after trading hours), the Target Company (an associate and a connected person of the Company) entered into the Capital Increase Agreement with all its shareholders, namely Shudao Capital, Chengdu International Aviation and CSI SCE, pursuant to which, Shudao Capital (a member of Shudao Investment Group) agreed to increase its capital to the Target Company (i.e. Shudao Capital will subscribe for RMB1,000,000,000 of the additional registered capital of the Target Company in the amount of RMB1,209,200,000. The RMB209,200,000 in excess of the registered capital will be included in the capital reserve of the Target Company as a capital premium). In particular, Chengdu International Aviation does not participate in the Capital Increase. The Board (including all the independent non-executive Directors) of the Company is of the view that participation in the Capital Increase is not in the interests of the Company and its Shareholders as a whole, and that the non-participation of the Capital Increase will not have any material impact on the normal production and operation and financial position of the Company and is in the interests of all Shareholders of the Company as a whole, and accordingly, CSI SCE, a wholly-owned subsidiary of the Company, does not participate in the Capital Increase.

I. CAPITAL INCREASE AGREEMENT IN RELATION TO AN ASSOCIATE OF THE COMPANY

The principal terms of the Capital Increase Agreement are set out as follows:

- Date : 18 July 2024 (after trading hours)
- Parties :
 1. the Target Company (an associate and connected person of the Company);
 2. Shudao Capital (a member of Shudao Investment Group and a connected person of the Company);
 3. Chengdu International Aviation; and
 4. CSI SCE (a wholly-owned subsidiary of the Company)
- Subject Matter : Pursuant to the terms and conditions of the Capital Increase Agreement, Shudao Capital agreed to increase its capital to the Target Company (i.e. Shudao Capital will subscribe for RMB1,000,000,000 of the additional registered capital of the Target Company in the amount of RMB1,209,200,000. The RMB209,200,000 in excess of the registered capital will be included in the capital reserve of the Target Company as a capital premium), and both Chengdu International Aviation and CSI SCE do not participate in the Capital Increase.
- Consideration and Payment : Chengdu International Aviation and CSI SCE both do not participate in the Capital Increase and accordingly, no consideration or payment is payable or receivable by them in respect of the Capital Increase.

In respect of Shudao Capital, the consideration payable for the Capital Increase is RMB1,209,200,000, which was determined with reference to the appraised market value of the Target Company as at the Valuation Benchmark Date as assessed by the PRC Independent Valuer adopting the market approach as set out in the Asset Valuation Report. As at the Valuation Benchmark Date, the value of the entire shareholders' equity interests of the Target Company was RMB706,248.900. The Board understands that the PRC Independent Valuer has considered all commonly valuation approaches adopted in the market (i.e. the income approach, the market approach and the asset-based approach) to determine the valuation of the 100% equity interests in the Target Company and ultimately adopted the market approach and the asset-based approach for the valuation. Please refer to Appendix I for selection of the valuation approaches and their details.

The consideration for the Capital Increase will be paid by Shudao Capital in cash to the designated account of the Target Company in the following manners:

1. RMB470,140,000 to be paid within one month upon completion of the approval by the regulatory authority of the place of registration of the Target Company; and
2. the remaining portion to be paid within one year.

For the shareholders of the Target Company and their shareholdings before and after the Capital Increase, please refer to the section headed "Information on the Target Company" below.

Arrangements for :
Transitional Period

The profit or loss of the Target Company recorded from the Valuation Benchmark Date onwards shall be borne or enjoyed by Shudao Capital, Chengdu International Aviation and CSI SCE in proportion to the paid-in portion of the subscribed registered capital. The profit or loss of the Target Company is subject to the data confirmed by the auditor.

Information on the Target Company

The Target Company is a company incorporated in the PRC with limited liability in April 2015. Its principal business covers financial leasing business; operating leasing business; acquisition of domestic and foreign leased property; dealing with and maintaining residual value of leased property; advisory and guarantee services for leasing transaction; commercial factoring business relating to its principal business; consultation service for enterprise management, advisory service for investment in industry projects; wholesale of machinery and accessories; commission agency (excluding auction); import and export and related services (excluding goods administrated and operated by the State, or goods involving quota management, license management or other specific regulations and management which shall follow the relevant regulations of the PRC). As at the date of this announcement, the Target Company is held as to 44.9545% by Shudao Capital, 25.0455% by CSI SCE and 30.0000% by Chengdu International Aviation, respectively.

As at the date of this announcement, the Group holds 25.0455% equity interests in the Target Company. Upon completion of the Capital Increase, Shudao Capital will hold approximately 80.9790% equity interests in the Target Company and the Group's equity interests in the Target Company will be diluted from 25.0455% to approximately 8.6545% accordingly.

Details of the shareholders of the Target Company and their shareholdings before and after the Capital Increase are set out as follows:

Shareholder	Before completion of the Capital Increase		After completion of the Capital Increase	
	<i>Registered capital (RMB0'000)</i>	<i>Shareholding percentage</i>	<i>Registered capital (RMB0'000)</i>	<i>Shareholding percentage</i>
Shudao Capital	23,736	44.9545%	123,736	80.9790%
Chengdu International Aviation	15,840	30.0000%	15,840	10.3665%
CSI SCE	13,224	25.0455%	13,224	8.6545%
Total	<u>52,800</u>	<u>100%</u>	<u>152,800</u>	<u>100%</u>

Financial Information on the Target Company

The financial information of the Target Company for the two years ended 31 December 2022 and 2023 is set out as follows:

	For the year ended 31 December 2023 <i>(audited)</i> <i>(RMB)</i>	For the year ended 31 December 2022 <i>(audited)</i> <i>(RMB)</i>
Net profit before taxation	70,875,571.64	70,805,601.79
Net profit after taxation	53,010,834.93	52,235,662.66

The audited total assets and audited net assets of the Target Company as at 31 December 2023 were RMB3,198,119,385.93 and RMB641,529,639.30, respectively.

Based on the valuation of the Target Company by the PRC Independent Valuer, the value of the entire shareholders' equity interests of the Target Company is RMB706,248,900.

Financial Impact of the Non-participation of the Capital Increase on the Company

As at the date of this announcement, the Target Company is an associate of the Company. Upon completion of the Capital Increase, the Target Company will continue to be an associate of the Company.

Based on the actual situation, the Group does not participate in the Capital Increase in the Target Company and there will be no change in the scope of the Group's consolidated financial statements. Upon completion of the Capital Increase, the Group's equity interests in the Target Company will be diluted from 25.0455% to approximately 8.6545% accordingly, which will not result in any gain or loss recorded in the Group's financial statements.

The proceeds from the Capital Increase are expected to be used to increase the registered capital and enlarge the capital reserve of the Target Company.

II. REASONS FOR AND BENEFITS OF THE COMPANY'S NON-PARTICIPATION OF THE CAPITAL INCREASE AND THE DIRECTORS' OPINIONS ON THE TRANSACTION

The Board is of the view that the purpose of the Target Company's shareholders for the Capital Increase is to rapidly replenish its working capital, expand its business scale and enhance its market competitiveness and risk resistance.

The Target Company is merely an associate of the Company but is rather an indirectly non-wholly-owned subsidiary of Shudao Investment. Although the Board is aware of the business development and financial needs of the Target Company as well as the business considerations and reasons for a further injection of capital into the Target Company, after taking into account the business development plan of the Company and to further optimize the asset structure of the Company and focus on its principal business, the Board is of the view that it is not appropriate for the Group to provide funds to the said associate for now. It would be more prudent for the Group to retain its existing internal financial resources to meet its business and financial needs.

However, the Board is of the view that the Capital Increase should be proceeded with as it is reasonable and necessary for the improvement of the financial position and operating conditions of the Target Company. After negotiation among all the shareholders of the Target Company, it is understood that the Capital Increase and the valuation were determined on a fair and reasonable basis, and all the shareholders unanimously resolved and agreed that Chengdu International Aviation and CSI SCE (a wholly-owned subsidiary of the Company) shall not be required to make any capital contribution in respect of the Capital Increase, while Shudao Capital shall proceed to carry out the Capital Increase in accordance with its plan. Through the aforesaid, the issues and needs relating to the Target Company will be satisfactorily resolved.

The Board (including all the independent non-executive Directors) is of the view that: (1) the terms of the Capital Increase Agreement were negotiated on an arm's length basis between the Target Company and the relevant parties, fair and reasonable, and entered into on normal (or better) commercial terms; (2) participation in the Capital Increase is not in the interests of the Company and its Shareholders as a whole; (3) the non-participation of the Capital Increase will not have any material and adverse impact on the normal production and operation and financial position of the Company and is in the interests of all Shareholders of the Company as a whole. Accordingly, CSI SCE, a wholly-owned subsidiary of the Company, does not participate in the Capital Increase.

III. ABSTENTION FROM VOTING ON BOARD RESOLUTION

As Mr. Li Chengyong and Mr. Chen Chaoxiong, both being non-executive Directors, hold positions in Shudao Investment Group, they are deemed to be materially interested in the Capital Increase Agreement and have therefore abstained from voting on the Board resolution in relation to the approval of the Capital Increase Agreement. Save as disclosed above, none of the Directors has any material interests in the Capital Increase Agreement and is required to abstain from voting on the Board resolution in relation to the approval of the Capital Increase Agreement.

IV. INFORMATION ON OTHER PARTIES

The Group

The Group is principally engaged in the investment, construction, operation and management of expressways and the expansion of traditional core businesses of derivative economy along the expressways, as well as the foster and development of the green energy industry with a focus on “charging, battery bank + power replacement and hydrogen energy”.

CSI SCE

CSI SCE is a private limited company incorporated in Hong Kong on 16 December 2014. As at the date of this announcement, it is a wholly-owned subsidiary of the Company.

Shudao Capital

Shudao Capital is a company incorporated in the PRC with limited liability on 6 January 2014. Its business scope includes project investment and asset management of investment, advisory services on investment information, advisory services on financing information (illegal fund-raising, absorbing public capital and other finance activities are prohibited), corporate management consultancy, financial consultancy (excluding agency bookkeeping), and corporate management services (The aforesaid scope of business does not include items prohibited or restricted by Chinese laws, administrative regulations and decisions of the State Council; for projects subject to approval pursuant to the laws, operating activities shall commence upon receipt of the approval from relevant authorities). As at the date of this announcement, Shudao Capital was held as to 51% by Sichuan Tibetan Area Expressway Co., Ltd.* (四川藏區高速公路有限責任公司), 46.1553% by Shudao Investment and 2.8447% by Sichuan Expressway Construction and Development Group Co., Ltd.* (四川高速公路建設開發集團有限公司). Shudao Investment is a wholly-owned subsidiary of Sichuan Development Holding Co., Ltd.* (四川發展(控股)有限責任公司), which is wholly owned by the People’s Government of Sichuan Province.

Chengdu International Aviation

Chengdu International Aviation is a company incorporated in the PRC with limited liability on 25 September 2010 and is not connected with the Company. Its business scope includes: the construction of supporting infrastructure for international aviation hubs and real estate development, warehousing (excluding hazardous goods), custom declaration and inspection agency services, exhibition and display services, integrated commercial development, commodity information and consultation services, sales of machinery and equipment, advertising (excluding balloon advertisements), project investment, land consolidation, and property management (for projects subject to approval pursuant to the laws, operating activities shall commence upon receipt of the approval from relevant authorities). As at the date of this announcement, Chengdu International Aviation was held as to 60% by Chengdu Communications Investment Aviation Investment Group Co., Ltd.* (成都交投航空投資集團有限公司), 30% by Chengdu Airport Modern Service Industry Development Co., Ltd.* (成都空港現代服務業發展有限公司) and 10% by Sichuan Province Airport Group Co., Ltd..

V. LISTING RULES IMPLICATIONS

As at the date of this announcement, the Controlling Shareholder of the Company is Shudao Investment (which holds 1,035,915,462 A Shares and 183,064,200 H Shares, amounting to 1,218,979,662 Shares in total and representing approximately 39.861% of the total issued share capital of the Company).

Shudao Investment directly holds 46.1553% equity interests in Shudao Capital and indirectly holds 44.9545% equity interests in the Target Company, and thus both Shudao Capital and the Target Company are connected persons (as defined in the Listing Rules) of the Company. Therefore, the Capital Increase constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Capital Increase is more than 0.1% but less than 5%, it is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but is exempted from the independent Shareholders' approval requirements.

DEFINITIONS

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

- “A Share(s)” ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the SSE and traded in RMB
- “Asset Valuation Report” the asset valuation report on the Value of the Entire Shareholders’ Equity Interests of Shudao Financial Leasing (Shenzhen) Co., Ltd. Involved in the Proposed Capital Increase and Share Enlargement by Shudao Capital Holding Group Co., Ltd. (Shanghai Deloitte Ping Bao Zi [2024] No. 10003) (《蜀道資本控股集團有限公司擬開展增資擴股行為涉及的蜀道融資租賃(深圳)有限公司股東全部權益價值資產評估報告》滬德勤評報字(2024)10003號)
- “associate(s)” has the meaning ascribed to it in the Listing Rules
- “Board” board of Directors of the Company
- “Capital Increase” the transactions contemplated under the Capital Increase Agreement
- “Capital Increase Agreement” the capital increase agreement dated 18 July 2024 entered into among the Target Company and all its Shareholders, namely Shudao Capital, Chengdu International Aviation and CSI SCE
- “Chengdu International Aviation” Chengdu International Aviation Hub Development and Construction Co., Ltd.* (成都國際航空樞紐開發建設有限公司), a company incorporated in the PRC with limited liability
- “Company” Sichuan Expressway Company Limited* (四川成渝高速公路股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 00107) and the A Shares of which are listed and traded on the SSE (stock code: 601107)
- “connected person(s)” has the meaning ascribed to it in the Listing Rules
- “Controlling Shareholder(s)” has the meaning ascribed to it in the Listing Rules

“CSI SCE”	CSI SCE Investment Holding Limited, a company incorporated in Hong Kong with limited liability. As at the date of this announcement, it is a wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each, which are issued in Hong Kong, subscribed for in Hong Kong dollars and traded on the main board of the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and/or the rules governing the listing of stocks on the SSE, as the case may be
“PRC” or “China”	the People’s Republic of China and, for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Independent Valuer”	Shanghai Deloitte Assets Appraisal Co., Ltd.* (上海德勤資產評估有限公司)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	A Shares and/or H Shares, as the case may be
“Shareholder(s)”	the registered holder(s) of the Shares
“Shudao Capital”	Shudao Capital Holding Group Co., Ltd.* (蜀道資本控股集團有限公司), a company incorporated in the PRC with limited liability
“Shudao Investment”	Shudao Investment Group Co., Ltd.* (蜀道投資集團有限責任公司), currently the Controlling Shareholder of the Company

“Shudao Investment Group”	Shudao Investment and its subsidiaries (excluding the Group)
“SSE”	The Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Shudao Financial Leasing (Shenzhen) Co., Ltd. (蜀道融資租賃(深圳)有限公司), a company incorporated in the PRC with limited liability. As at the date of this announcement, it is an associate of the Company
“Valuation Benchmark Date”	31 August 2023
“%”	per cent

By Order of the Board
Sichuan Expressway Company Limited*
Yao Jiancheng
Joint Company Secretary

Chengdu, Sichuan Province, the PRC
18 July 2024

As at the date of this announcement, the Board comprises Mr. Luo Zuyi (Chairman), Mr. You Zhiming (Vice Chairman) and Madam Ma Yonghan as executive Directors, Mr. Wu Xinhua (Vice Chairman), Mr. Li Chengyong and Mr. Chen Chaoxiong as non-executive Directors, Mr. Yu Haizong, Madam Bu Danlu, Mr. Zhang Qinghua and Mr. Zhou Hua as independent non-executive Directors.

* *For identification purposes only*

APPENDIX I SELECTION OF VALUATION APPROACHES AND THEIR DETAILS

According to the Asset Valuation Report, the selection of the approaches and their details are set out below:

Applicability Analysis of Valuation Approaches

According to the Practice Guidelines for Asset Valuation–Enterprise Value, when performing appraisal of enterprise value, the applicability of the three basic approaches, namely, income approach, market approach and asset-based approach shall be analyzed to select the valuation approach pursuant to the purpose of valuation, the target of valuation, the type of value and the information collected. For the appraisal on enterprise value that is suitable for adopting different evaluation approaches, asset valuation professionals shall adopt more than two evaluation approaches.

1. The income approach in valuation of enterprise refers to the valuation approach that the expected income of the enterprise evaluated will be capitalized or discounted to determine the value of the valuation target. Asset valuation professionals shall properly consider the applicability of the income approach, taking into account the Target Company’s business nature, its assets size, its historical operations, the predictability of its future earnings, and the adequacy of its valuation information obtained.
2. The market approach in valuation of enterprise value refers to the valuation approach which compares the valuation target with comparable listed companies or comparable transaction cases so as to determine the value of the valuation target. Asset valuation professionals shall consider the applicability of the market approach based on the adequacy and reliability of the operation and financial data obtained from comparable enterprises and the number of comparable enterprises that can be collected.
3. The asset-based approach in valuation of enterprise value is also known as cost approach, which refers to the valuation approach to determine the value of the valuation target by reasonably assessing the value of the on-balance sheet and recognizable off-balance sheet assets and liabilities of an enterprise based on the balance sheet of the Target Company as at the Valuation Benchmark Date. Asset valuation professionals shall request the Target Company to identify the various assets and liabilities of the on-balance sheet and off-balance sheet in accordance with accounting policies, business operations and other circumstances.

Selection of Valuation Approaches

The income approach assesses the value of an asset by its expected profitability. The income approach was not adopted for the purpose of this appraisal resulting from business of the Target Company affected by the macroeconomic environment and the tightening of government regulation on this type of financial industry, as well as greater uncertainties in the future expansion and income of new business.

Target Company belongs to the financial leasing industry, there are no listed companies specializing in financial leasing business in the domestic A share market, while the business of listed companies in the financial sector is more extensive and the comparability with the Target Company is weak, it is not appropriate to adopt the listed company comparison method. By consulting with various property rights exchanges, Wind Info and other transaction information platforms, a number of transaction cases of non-listed financial leasing companies can be collected, and information relating to the scale, operation condition, asset condition and financial condition of comparable companies can be obtained from their official websites, property rights exchanges and Wind Info and other reliable means. Therefore, the transaction case comparison approach can be adopted for this valuation.

The Target Company's ownership of the assets of the appraised entity is unambiguous, its financial information is complete, and various assets and liabilities can be identified. Not only can the quantity of the subject assets can be ascertained through the financial information and the information on purchases and constructions, it can also be verified through on-site inspection. The value of the assets can be determined by considering the re-acquisition of similar assets. Therefore, it is appropriate to adopt the asset-based approach in this case.

Valuation Conclusion

In this valuation, the value of entire shareholders' equity interests of the Target Company, using the asset-based approach and the market approach, is respectively RMB686,447,700 and RMB706,248,900, representing a difference of 2.88%, which is mainly due to the fact that the asset-based approach is considered from the re-acquisition of assets, reflecting the replacement value of the existing assets of the Target Company, and the market approach adopts the transaction case comparison method for valuation, reflecting the value of the Target Company's shareholders' equity in the capital market.

We consider that valuation results adopting the market approach are more reflective of the Target Company's true value due to the fact that the purpose of the valuation is to increase capital and expand shares and the consideration of its value under the optimal use of assets is gave higher priority by the enterprises, the value of entire shareholders' equity interests of the Target Company is RMB706,248,900.

Specific Application of Valuation Approaches

Asset-based approach

Asset-based approach refers to an approach of calculating the Target Company's evaluation values of various assets separately, accumulating and summing them up, and then deducting the evaluation values of liabilities to obtain the value of entire shareholders' equity interests. Basic formula: value of total shareholders' equity = sum of appraised value of individual assets – sum of appraised value of individual liabilities

1. Valuation of current assets: This includes the evaluation of the following items: monetary funds, other receivables, prepayments, derivative financial instruments, non-current assets due within one year, other current assets, and financial assets measured at fair value.
2. Valuation of long-term receivables: The valuers firstly verify the general ledger, subsidiary ledger and valuation declaration statements, and carry out alternative testing procedures, such as contracts checking and vouchers recording, in respect of finance lease receivables with relatively large book balances to check the accuracy of the book balances; and secondly, the valuers make judgmental analysis of the recoverability of receivables to arrive at an appraised value.
3. Valuation of machinery and equipment: According to the Practice Guidelines for Asset Valuation – Machinery and Equipment, when performing appraisal of machinery and equipment, the applicability of the three basic approaches, namely, cost approach, market approach and income approach shall be analyzed to select the valuation approach pursuant to the purpose of valuation, the target of valuation, the type of value and the information collected. Given that the majority of the Target Company's equipment-type assets are in favorable working condition and their quantities could be determined through on-site investigation and verification regarding the purchase of construction information, the replacement cost approach is adopted in the evaluation through the analysis of the characteristics, uses and data collection of various types of equipment involved. Formula: Appraised value = replacement value × comprehensive newness rate
4. Valuation of long-term deferred expenses: Long-term deferred expenses represent renovation expenditures incurred on fixed assets leased by the Target Company under operating leases. The valuers firstly verify the general ledger, subsidiary ledger and valuation declaration statements; examine the recorded vouchers incurred on long-term deferred expenses and review book amount of long-term deferred expenses in accordance with the amortization policy implemented by the enterprise, with particular attention paid to the useful life of long-term deferred expenses. Due to the short recorded time of the long-term deferred assets, no material changes occur in prices as well as the reasonable composition relating to book cost. Therefore, the valuers determine the replacement price based on the verified book cost, which is amortized over the economic useful life to arrive at the appraised value.

5. Valuation of deferred income tax assets: The valuers regard the value of deferred income tax assets arising from the recognition of the provision for revaluation of assets as the appraised value on the basis of their verification in respect of the reasonableness and correctness in relation to the formation and calculation of the enterprise's deferred income tax assets.
6. Valuation of right-of-use assets: In accordance with the lease contract and the calculation of the right-of-use assets provided by the enterprise, it is verified that whether the initial measurement of the right-of-use assets is correct and whether the depreciation is in accordance with the enterprise's accounting policy. The book value is regarded as the appraised value upon correct verification.
7. Valuation of liabilities: In terms of liabilities, according to the detailed composition of each breakdown of accounts provided by the enterprise, the actual amount of liabilities to be borne by the enterprise after verification is taken as the appraised value.

Market Approach Valuation

1. Introduction and applicable conditions of market approach

Market approach is an indirect valuation approach. Two specific methods commonly used in the market approach are the listed company comparison method and the transaction case comparison method. The basic conditions of using market approach for valuation are that: there must be a relatively active capital and securities market; and market cases and their indicators and parameters comparable to the valuation target can be collected and quantified.

As for the listed company comparison method, it has better operability for the openness of indicator data of listed company. The listed company comparison method is generally based on the observation of the minority equity trading price of comparable companies engaged in similar or identical business with the Target Company in the stock market. Appropriate market multipliers such as P/B ratio are selected as the research object, and the possible market multipliers of the Target Company are analyzed and obtained by comparing its and the comparable company's financial indicator, and on this basis of which its equity value is calculated.

The transaction case comparison method refers to the specific method of obtaining and analyzing the data of the transaction, acquisition and merger cases of comparable enterprises, calculating the value ratio, and determining the value of the valuation object on the basis of the Target Company's comparative analysis. Pursuant to specific transaction purpose of the transaction case, the appropriate market multipliers such as P/B ratio are selected as the research object, and the possible market multipliers of the Target Company are analyzed and obtained by comparing the financial indicators of the Target Company and that of the target companies in the transaction cases, and on such basis, the equity value of the Target Company is calculated.

According to the Target Company's business nature and availability of market data, transaction case comparison method is adopted as the main analysis method for this valuation.

2. Basic concept of market approach valuation

The comparable transaction case approach in the market approach is selected for this valuation, and the basic valuation concept of which is as follows:

- (1) Analyze the Target Company's basic conditions, which mainly include the industry in which it operates, its scope of business, size, financial condition and etc.;
- (2) Determine comparable transaction cases. The target companies in the reference comparable transaction cases shall have similar characteristics to the appraised enterprise in terms of its mode of operation, scope of business, and industry segmentation;
- (3) Analyze and compare major financial indicators of the Target Company and the target companies in comparable transaction cases, which primarily include financial indicators such as asset scale, profitability, operational ability, solvency, growth competence, etc.;
- (4) Following the knowledge of the industry in which the Target Company operates and the analysis of its financial projections for the most recent period and future years as of the Valuation Benchmark Date, appropriate market multiplier of comparable companies is selected, modified and adjusted by means of proper approaches, as a result that its possible market multiplier is estimated;
- (5) Based on the Target Company's selected market multipliers, its equity value is analyzed.