
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Luoyang Glass Company Limited*, you should at once hand this circular to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Luoyang Glass Company Limited*.



洛阳玻璃股份有限公司

LUOYANG GLASS COMPANY LIMITED*

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

(Stock code: 01108)

- (1) REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS**
- (2) DISCLOSEABLE AND CONNECTED TRANSACTION ON ACQUISITION OF REMAINING 40% EQUITY INTEREST IN QINHUANGDAO NORTH GLASS CO., LTD.**
- (3) DISCLOSEABLE AND CONNECTED TRANSACTION ON DISPOSAL OF 100% EQUITY INTEREST OF PUYANG CHINA NATIONAL BUILDING MATERIALS PHOTOVOLTAIC MATERIALS COMPANY LIMITED, A SUBSIDIARY**
- (4) PROPOSED CHANGE OF COMPANY NAME**
- (5) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**
- (6) ELECTION OF MR. SUN SHIZHONG AS A NON-EXECUTIVE DIRECTOR OF THE TENTH SESSION OF THE BOARD**

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders



Gram Capital Limited
嘉林資本有限公司

Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those set out in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 1 to 71 of this circular.

A notice convening the EGM to be held at the conference room of the Company on 3rd Floor, No. 9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC at 9 am. on Friday, 30 December 2022 is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zhglb.com).

The forms of proxy for use at the EGM shall be despatched to the Shareholders and published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) on 13 December 2022. Whether or not you are able to attend the EGM in person, you are requested to complete and return the forms of proxy in accordance with the instructions printed thereon to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, or to the Company's registered address at No. 9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC as soon as possible and in any event not less than 24 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

13 December 2022

* For identification purposes only

CONTENTS

	<i>Page</i>
DEFINITIONS	ii
LETTER FROM THE BOARD	1
LETTER FROM THE INDEPENDENT BOARD COMMITTEE.	72
LETTER FROM GRAM CAPITAL.	75
APPENDIX I – ASSET VALUATION REPORT ON NORTH GLASS	I-1
APPENDIX II – ASSET VALUATION REPORT ON PUYANG CNBM PHOTOVOLTAIC MATERIALS	II-1
APPENDIX III – REPORT FROM THE REPORTING ACCOUNTANT OF THE COMPANY ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE ASSET VALUATION OF NORTH GLASS.	III-1
APPENDIX IV – REPORT FROM THE REPORTING ACCOUNTANT OF THE COMPANY ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF PUYANG CNBM PHOTOVOLTAIC MATERIALS	IV-1
APPENDIX V – LETTER FROM THE BOARD IN RELATION TO THE ASSET VALUATION REPORT	V-1
APPENDIX VI – PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION.	VI-1
APPENDIX VII – GENERAL INFORMATION	VII-1
NOTICE OF EGM	EGM-1

DEFINITIONS

In this circular, unless otherwise specified, the following expressions shall have the following meanings:

“A Share(s)”	domestic ordinary share(s) with a par value of RMB1.00 each in the share capital of the Company which are listed on the Shanghai Stock Exchange and traded in RMB
“Acquisition”	the acquisition of the remaining 40% of the equity interest of North Glass from Yaohua Group in accordance with the terms and conditions of the North Glass Share Transfer Agreement by the Company
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Valuation Reference Date”	the audit valuation reference date of North Glass and Puyang CNBM Photovoltaic Materials, i.e. 31 December 2021
“Board”	the board of Directors of the Company
“CLFG”	China Luoyang Float Glass (Group) Company Limited* (中國洛陽浮法玻璃集團有限責任公司), a company incorporated in the PRC with limited liability, and the substantial shareholder of the Company
“CNBM”	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 and approximately 44.4% of the issued share capital of which are directly and indirectly held by CNBMG
“CNBM Research Institute”	CNBM New Material Research Institute Group Co., Ltd.* (中建材玻璃新材料研究院集團有限公司), formerly known as CNBM Bengbu Design & Research Institute for Glass Industry Co., Ltd* (中建材蚌埠玻璃工業設計研究院有限公司), a company incorporated in the PRC with limited liability, the substantial shareholder of the Company and a wholly-owned subsidiary of Triumph

DEFINITIONS

“CNBMG”	China National Building Material Group Co., Ltd.* (中國建材集團有限公司), a wholly state-owned enterprise incorporated in the PRC and an ultimate controlling shareholder of the Company
“Company”	Luoyang Glass Company Limited* (洛陽玻璃股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H Shares and A Shares of which are listed on the main board of the Stock Exchange (stock code: 1108) and the Shanghai Stock Exchange (stock code: 600876) respectively
“Completion of North Glass”	completion of the Acquisition pursuant to the terms and conditions of the North Glass Share Transfer Agreement
“Completion of Puyang CNBM Photovoltaic Materials”	completion of the Acquisition pursuant to the terms and conditions of the Puyang CNBM Photovoltaic Materials Share Transfer Agreement
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company, including the independent non-executive director(s) of the Company
“Disposal”	the disposal of 100% of the Target Equity Interest to the Yaohua Group pursuant to the terms and conditions of the Puyang CNBM Photovoltaic Materials Share Transfer Agreement by the Company
“EGM”	the extraordinary general meeting of the Company to be convened in due course, among other things, for the Independent Shareholders to consider and, if thought fit, approve the Share Transfer Agreement and the transactions contemplated thereunder
“Engineering Construction Equipment Procurement and Installation Framework Agreement”	the engineering construction equipment procurement and installation framework agreement dated 2 December 2020 entered into between the Company and China National Building Material Group Co., Ltd.* (中國建材集團有限公司), pursuant to which CNBMG Group agreed to supply equipment materials, construction and installation services required for engineering projects to the Group

DEFINITIONS

“Group”	the Company and its subsidiaries
“Handover Completion Date”	at the end of the preceding month or the month (to be determined by Yaohua Group and the Company through negotiation) of the Registration Completion Date of Puyang CNBM Photovoltaic Materials
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign share(s) with a par value of RMB1.00 each in the share capital of the Company which are listed on the main board of Stock Exchange and traded in HK\$
“Independent Board Committee”	the independent board committee of the Company comprising Ms. Zhang Yajuan, Mr. Fan Baoqun, Mr. Chen Qisuo and Mr. Zhao Hulin and, being all the independent non-executive Directors of the Company, which is formed to advise the Independent Shareholders in respect of the Share Transfer Agreement and the transactions contemplated thereunder in accordance with the Listing Rules
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company for the purpose of giving recommendations to the Independent Board Committee and the Independent Shareholders on the terms and conditions of the Acquisition and the transactions contemplated thereunder, the terms and conditions of the Disposal and the Relevant Supplemental Agreements (including the Proposed Revised Annual Caps)

DEFINITIONS

“Independent Shareholders”	<p>In the case of revision of annual caps of continuing connected transactions, Shareholders other than CNBMG, its associates and all other parties (if any) who are interested or involved in the Supplemental Agreement and the Proposed Revised Annual Caps</p> <p>In the case of Acquisition and the Disposal, Shareholders other than (i) Triumph Group and its associates and (ii) all other parties (if any) who are materially interested or involved in the North Glass Share Transfer Agreement or Photovoltaic Materials Share Transfer Agreement (as the case may be) and the transactions contemplated thereunder</p>
“International Engineering”	China Triumph International Engineering Co., Ltd.* (中國建材國際工程集團有限公司), a company incorporated in the PRC with limited liability
“Latest Practicable Date”	9 December 2022, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“North Glass”	Qinhuangdao North Glass Co., Ltd.* (秦皇島北方玻璃有限公司), a company incorporated in the PRC with limited liability, which is owned as to 60% equity interest by the Company and 40% equity interest by the Yaohua Group as at the Latest Practicable Date
“North Glass Share Transfer Agreement”	the share transfer agreement relating to Qinhuangdao North Glass Co., Ltd.* (《關於秦皇島北方玻璃有限公司的股權轉讓協議》) entered into between Yaohua Group and the Company on 23 November 2022, pursuant to which the Company has agreed to acquire and Yaohua Group has agreed to dispose of the remaining 40% of equity interest in North Glass
“North Glass Share Transfer Price”	the consideration for the North Glass share transfer under the North Glass Share Transfer Agreement, being RMB163,868,200 (equivalent to approximately HK\$176,977,656)

DEFINITIONS

“North Glass Target Equity Interest”	the remaining 40% equity interest in North Glass which Yaohua Group agreed to dispose of and the Company agreed to acquire pursuant to the North Glass Share Transfer Agreement
“percentage ratios”	has the same meaning as ascribed to it under the Listing Rules, as applicable to a transaction
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Revised Annual Caps”	the revised annual caps for the Relevant Supplemental Agreements for the financial years ending 31 December 2022 and 31 December 2023
“Puyang CNBM Photovoltaic Materials”	Puyang China National Building Materials Photovoltaic Materials Company Limited* (中建材(濮陽)光電材料有限公司), fully-funded and established by the Company on 11 December 2013, 100% held by the Company
“Puyang CNBM Photovoltaic Materials Share Transfer Agreement”	the Share Transfer Agreement in relation to Puyang China National Building Materials Photovoltaic Materials Company Limited entered into between the Company and Yaohua Group on 23 November 2022
“Puyang CNBM Photovoltaic Materials Share Transfer Price”	the consideration in relation to Puyang CNBM Photovoltaic Materials share transfer under the Puyang CNBM Photovoltaic Materials Share Transfer Agreement, i.e. RMB326,885,000 (equivalent to approximately HK\$353,035,800)
“Puyang CNBM Photovoltaic Materials Target Equity Interest”	100% equity interest in Puyang CNBM Photovoltaic Materials which the Company agreed to dispose of and Yaohua Group agreed to acquire
“Relevant Supplemental Agreements”	the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and the Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement, revisions of annual caps of which are subject to the approval by the Independent Shareholders at the Third EGM

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase of Raw Materials Framework Agreement”	the sale and purchase of raw materials framework agreement dated 2 December 2020 entered into between the Company and China National Building Material Group Co., Ltd.* (中國建材集團有限公司), pursuant to which CNBMG Group agreed to supply certain raw materials to the Group
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Listing Rules”	Rules Governing the Listing of Stocks on Shanghai Stock Exchange
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning as ascribed to it under the Listing Rules
“Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement”	the supplemental agreement for the Engineering Construction Equipment Procurement and Installation Framework Agreement dated 23 November 2022 entered into between the Company and China National Building Material Group Co., Ltd.* (中國建材集團有限公司) to revise the existing annual caps for the Engineering Construction Equipment Procurement and Installation Framework Agreement
“Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement”	the supplemental agreement for the Sale and Purchase of Raw Materials Framework Agreement dated 23 November 2022 entered into between the Company and China National Building Material Group Co., Ltd.* (中國建材集團有限公司) to revise the existing annual caps for the Sale and Purchase of Raw Materials Framework Agreement
“Supplemental Agreement for Technical Services Framework Agreement”	the supplemental agreement for the Technical Services Framework Agreement dated 23 November 2022 entered into between the Company and China National Building Material Group Co., Ltd.* (中國建材集團有限公司) to revise the existing annual caps for the Technical Services Framework Agreement

DEFINITIONS

“Supplemental Agreements”	Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement, Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement, and Supplemental Agreement for Technical Services Framework Agreement
“Technical Services Framework Agreement”	the technical services framework agreement entered into between the Company and China National Building Material Group Co., Ltd.* (中國建材集團有限公司) on 2 December 2020, pursuant to which CNBMG Group agreed to provide certain technical services to the Group
“Triumph”	Triumph Technology Group Company Limited* (凱盛科技集團有限公司), a company incorporated in the PRC with limited liability and an indirect controlling shareholder of the Company
“Triumph Group”	Triumph and its subsidiaries
“Triumph Mineral”	CNBMG Triumph Mineral Resources Group Co., Ltd.* (中建材凱盛礦產資源集團有限公司), formerly known as Anhui Huaguang Photoelectricity Materials Technology Group Co., Ltd.* (安徽華光光電材料科技集團有限公司), a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of Triumph
“Yaohua Group”	China Yaohua Glass Group Corporation Co., Ltd.* (中國耀華玻璃集團有限公司), a company incorporated in the PRC with limited liability and a subsidiary controlled by Triumph Group which is an indirect controlling shareholder of the Company; and a transaction counterparty in the North Glass Share Transfer Price and Puyang CNBM Photovoltaic Materials Share Transfer Agreement
“%”	per cent

* *For identification purposes only*

LETTER FROM THE BOARD



洛阳玻璃股份有限公司

LUOYANG GLASS COMPANY LIMITED*

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

(Stock code: 01108)

Executive Directors:

Mr. Xie Jun

Mr. Ma Yan

Mr. Zhang Rong

Mr. Liu Yuquan

Ms. Wang Leilei

Registered and principal office:

No. 9 Tang Gong Zhong Lu

Xigong District

Luoyang Municipal

Henan Province

The PRC

Non-executive Directors:

Mr. Zhang Chong

Independent non-executive Directors:

Ms. Zhang Yajuan

Mr. Fan Baoqun

Mr. Chen Qisuo

Mr. Zhao Hulin

**(1) REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS**

**(2) DISCLOSEABLE AND CONNECTED TRANSACTION ON ACQUISITION
OF REMAINING 40% EQUITY INTEREST IN QINHUANGDAO NORTH GLASS
CO., LTD.**

**(3) DISCLOSEABLE AND CONNECTED TRANSACTION ON DISPOSAL
OF 100% EQUITY INTEREST OF PUYANG CHINA NATIONAL BUILDING
MATERIALS PHOTOVOLTAIC MATERIALS COMPANY LIMITED, A
SUBSIDIARY**

(4) PROPOSED CHANGE OF COMPANY NAME

(5) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

**(6) ELECTION OF MR. SUN SHIZHONG AS A NON-EXECUTIVE DIRECTOR
OF THE TENTH SESSION OF THE BOARD**

References are made to (i) the announcements of Luoyang Glass Company Limited* (the “Company”) dated 23 November 2022 on the (1) revision of annual caps for continuing connected transactions and supplemental agreements in relation to the amendments to the annual caps of the existing continuing connected transactions under the Engineering Construction Equipment Procurement and Installation Framework Agreement, Sale and Purchase of Raw Materials Framework Agreement and the Technical

LETTER FROM THE BOARD

Services Framework Agreement; (2) discloseable and connected transaction – acquisition of remaining 40% equity interest in Qinhuangdao North Glass Co., Ltd.; (3) discloseable and connected transaction on disposal of 100% equity interest of Puyang China National Building Materials Photovoltaic Materials Company Limited, a subsidiary; (4) proposed change of company name and proposed amendments to the Articles of Association; and (ii) the announcements of the Company dated 27 October 2022 in relation to the resignation and nomination of non-executive Director (the “**Announcements**”).

The purpose of this circular is to:

- (1) provide details of the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement, Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and Supplemental Agreement for Technical Services Framework Agreement and Proposed Revised Annual Caps;
- (2) set out the recommendations from the Independent Board Committee in respect of the following matters (i) Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and Proposed Revised Annual Caps, (ii) Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and proposed annual caps for the amount, and (iii) Supplemental Agreement for Technical Services Framework Agreement and proposed annual caps for the amount;
- (3) set out the recommendations from Gram Capital in respect of Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and Proposed Revised Annual Caps, and (ii) Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and proposed annual caps for the amount;
- (4) provide details of the relevant resolutions in relation to the Acquisition and the transactions contemplated thereunder;
- (5) provide details of the relevant resolutions in relation to the Disposal and the transactions contemplated thereunder;
- (6) provide details of the proposed change of company name;
- (7) provide details of the proposed amendments to the Articles of Association;
- (8) provide details of the election of Mr. Sun Shizhong as a non-executive Director of the tenth session of the Board; and
- (9) provide Shareholders with other information as required by the Listing Rules.

LETTER FROM THE BOARD

I. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

A. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Set out below is the summary of the principal terms of (i) Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and (ii) Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement, which are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules:

1. *Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement*

The Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement becomes effective upon approval by the Independent Shareholders which revises the existing annual caps to the Proposed Revised Annual Caps. Save for the existing annual caps, other terms and conditions in the Engineering Construction Equipment Procurement and Installation Framework Agreement will remain unchanged and in full force and effect. Set out below are the principal terms of the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement:

Date: 2 December 2020; revised on 23 November 2022

Parties: (i) The Company; and
(ii) CNBMG

Principal terms of transaction: In the original agreement, "The estimated cumulative annual amount (tax inclusive) of the engineering equipment materials and installation transactions under this agreement shall not exceed RMB2.3 billion in 2021; shall not exceed RMB1.5 billion in 2022; and shall not exceed RMB2 billion in 2023."

LETTER FROM THE BOARD

The Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement now revises it to “The estimated cumulative annual amount (tax inclusive) of the engineering equipment materials and installation transactions under this agreement shall not exceed RMB2.3 billion in 2021; shall not exceed RMB3.3 billion in 2022; and shall not exceed RMB3.7 billion in 2023.”

Term: Effective upon the approval by the Independent Shareholders at the Third EGM of the Company, and shall be valid until 31 December 2023.

The payments for the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and the transactions contemplated thereunder will continue to be made through internal resources of the Company.

Pricing Standards

The price or consideration of the years 2022–2023 under the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and the transactions contemplated thereunder will be determined with reference to:

- (i) prices offered by CNBMG to other independent third party(ies) in respect of engineering projects of the same or similar size;
- (ii) comparable transactions (if any) conducted with independent third party(ies) by the Group in respect of engineering projects of the same or similar size during the same period; and
- (iii) communication and exchange on price information by various means, including telephone conversations, emails and meetings, with peers and collaborative partners in the photovoltaic glass manufacturing industry.

LETTER FROM THE BOARD

If there are no available prevailing market prices or where it is impracticable to obtain such market prices, the Group and the CNBMG will determine the price after arm's length negotiation with reference to:

- (i) similar transactions conducted between CNBMG and independent third party(ies); and/or
- (ii) the costs of provision of equipment and materials by CNBMG for engineering projects, technical requirements for installation, manpower involved, complexity of engineering projects, advancement level of technology and duration of the installation. The price to be offered by CNBMG to the Group shall not be less favourable than those offered by CNBMG to other independent third party(ies) in respect of provision of services of the same or similar type.

Historical Amount and Revision of Existing Annual Caps

It is expected that the transaction volume of the transactions contemplated under Engineering Construction Equipment Procurement and Installation Framework Agreement may increase for the years ending 31 December 2022 and 31 December 2023. As such, the Company proposes to revise the existing annual caps.

The historical transaction amount, the existing annual caps and the Proposed Revised Annual Caps under the Engineering Construction Equipment Procurement and Installation Framework Agreement are set out below:

Unit: RMB'0,000

	For the year ended/ending 31 December					Actual amount as of 6 December 2022
	Historical actual amount 2021	Proposed Revised			Proposed	
		Approved annual cap 2022	Annual	Approved	Revised	
			Cap	annual cap	Annual	
			2022	2022	2023	
Supply of engineering services including civil construction, equipment materials procurement and installation, as well as commissioning, by CNBMG and its subsidiaries to the Company and its subsidiaries	200,117	150,000	330,000	200,000	370,000	125,896

LETTER FROM THE BOARD

So far as the Directors are aware, as at the Latest Practicable Date, the transaction amount under the Engineering Construction Equipment Procurement and Installation Framework Agreement has not exceeded and is not expected to exceed its annual cap applicable to the transactions thereof for the year ending 31 December 2022.

In order to ensure strict compliance with the Listing Rules, the Group has strengthened the corresponding internal control measures and the implementation thereof, including postponing the signing of the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement, subject to the approval of the general meeting of Shareholders.

Basis of the Proposed Revised Annual Caps

The Proposed Revised Annual Caps have been determined based on the estimated amounts of the equipment materials, construction and equipment installation services required for the ongoing and proposed engineering projects of the Group, mainly taking into consideration:

- (i) the estimated price of the EPC Contract for the Phase I Project of Photovoltaic Cell Encapsulating Material for Solar Energy Equipment of CNBM (Luoyang) New Energy Co., Ltd.* (中建材(洛陽)新能源有限公司) being constructed by the Group in 2022;
- (ii) the upfront expenses for the commencement of construction of the Phase II Project of Photovoltaic Cell Encapsulating Material for Solar Energy Equipment of Kaisheng (Zigong) New Energy (凱盛(自貢)新能源); the Phase I technological transformation project and Phase III new project of Kaisheng (Zhangzhou) New Energy Co., Ltd.* (凱盛(漳州)新能源有限公司) (formerly known as TG Fujian Photovoltaic Glass Co., Ltd.* (台玻福建光伏玻璃有限公司)); and the Phase II Project of Photovoltaic Cell Encapsulating Material for Solar Energy Equipment of CNBM (Luoyang) New Energy Co., Ltd.* (中建材(洛陽)新能源有限公司), which the Group plans to implement in 2023; and
- (iii) the estimated prices and costs of engineering equipment materials, construction and equipment installation services are mainly based on (1) the historical transactions between the Group and CNBMG for construction projects of similar capacity, scale and product structure; and (2) the feasibility study reports on the ongoing and proposed projects of the Group as of 31 December 2023.

LETTER FROM THE BOARD

Reasons for and Benefits of the Revision of Existing Annual Caps

Development of the Glass Industry

The global photovoltaic glass industry is now a market with sizeable scale. According to the China Photovoltaic Industry Association, in 2021, the production capacity share of the top five participants in China's photovoltaic glass industry reached 71%, and more than 90% of the production capacity of photovoltaic glass in the global market was contributed by China. At the same time, China is the world's largest photovoltaic module producer and its market has the largest demand and supply in the world. Driven by the dual effect of the guidance under national policy and technological innovation, the photovoltaic market may enter into an accelerated phase for development. As the midstream of the photovoltaic industry production chain, the Company can continue to benefit from the increasing demand for photovoltaic glass.

Under the context, the Group has, on the one hand, increased its investment in research and development, improved its cost control and adjusted and optimized the layout of its production lines to enhance the competitiveness of its products; and on the other hand, increased the number of production lines in each production base and expanded the production scale of a single line to improve production efficiency, spread out various expenses and reduced procurement costs in order to ensure timely supply and thereby increase its market share. To this end, the Group plans to continue to invest in the production capacity of large kilns (most of the existing operating kilns have a daily melting capacity of no more than 650 tonnes, while the kilns of the new production lines have a daily melting capacity of 1,200 tonnes), and to increase the number of production lines in the existing production bases in order to effectively reduce the cost of labour and unit manufacturing, thereby enhancing the efficiency of the use of resources.

Advantages of Cooperating with the Counter Party

CNBMG is the largest comprehensive building material group corporation in China and an enterprise of Fortune Global 500. Relying on the support of industrial platform and technological innovation from CNBMG and Triumph Group, the Company has focused on the main business of new energy materials, accelerated the optimization of regional layout, and successively established seven intelligent production bases in East China, Central China, North China and Southwest China.

LETTER FROM THE BOARD

According to the new energy materials business development strategy of the Group, the Company has adhered to the development path of mergers and acquisitions combined with new construction and renovation to continuously improve the industrial layout, expanded the scale of production capacity, enhanced the quality of assets and operational efficiency, and promoted greater synergy. In terms of engineering construction, CNBMG and the Group have a good foundation of cooperation and communication mechanism, which can meet the Group's demand for intelligent, green, advanced and reliable new construction and renovation projects, and help enhance the market competitiveness of the Company's core business.

The Revision of Existing Annual Caps

In view of the increase in the number of engineering construction projects and the expansion in the scale of single production lines, the Company expects that the actual transaction amounts under the Engineering Construction Equipment Procurement and Installation Framework Agreement may exceed the existing annual caps for 2022 and 2023, and for the purpose of meeting the Company's business development plan for the current and next year, the Company proposes to revise the existing annual caps.

Revision of Existing Annual Cap for 2022

The estimated price of the EPC Contract for the Phase I Project of Photovoltaic Cell Encapsulating Material for Solar Energy Equipment of CNBM (Luoyang) New Energy Co., Ltd.* (中建材(洛陽)新能源有限公司) being constructed by the Group in 2022 is expected to be approximately RMB1.8 billion in total. The project is to construct two 1,200t/d one-kiln and five-line ultra-white photovoltaic glass production lines, public ancillary production facilities and office and living facilities, ancillary construction works including connected deep-processing production lines, environmental power generation facilities and power generation glass facades. The aim of the project is to maximise the use of the kiln, reduce energy consumption, reduce environmental pollution, promote the automation of the whole line, and increase capacity efficiency. The project will also lead the technological development of the industry in terms of glass process technology, energy saving and emission reduction, environmental management and other aspects.

As mentioned above, as the estimated price of the EPC Contract for the project is approximately RMB1.8 billion in total, which will therefore exceed the existing cap of RMB1.5 billion for the year 2022, the Company proposes to increase the annual caps applicable to CNBMG under the Engineering Construction Equipment Procurement and Installation Framework Agreement for the year ending 31 December 2022 by RMB1.8 billion accordingly, from RMB1.5 billion to RMB3.3 billion.

LETTER FROM THE BOARD

Revision of Existing Annual Cap for 2023

In 2023, the Group expects to enter into and execute a series of contracts to facilitate business development as follows:

Subsidiary	Contract Content	Amount (RMB0'000)
North Glass	Waste heat generation	5,000.00
North Glass	Rooftop photovoltaic power generation	3,000.00
North Glass	Curtain wall power generation	1,500.00
CNBM (Yixing) New Energy Company Limited* (中建材(宜興)新能源有限公司)	4.5MW waste heat power project	4,500.00
CNBM (Yixing) New Energy Company Limited* (中建材(宜興)新能源有限公司)	8MW distributed photovoltaic power generation project	9,000.00
CNBM (Yixing) New Energy Company Limited* (中建材(宜興)新能源有限公司)	Construction project of staff dormitory and canteen	8,300.00
CNBM (Yixing) New Energy Company Limited* (中建材(宜興)新能源有限公司)	Phase I and Phase II technical transformation project of the solar coating glass production line with annual capacity of 48 million m ²	20,000.00
CNBM (Tongcheng) New Energy Materials Company Limited* (中國建材桐城新能源材料有限公司)	Phase I project of photovoltaic cell encapsulating material for solar energy equipment	20,000.00
Kaisheng (Zigong) New Energy Co., Ltd.* (凱盛(自貢)新能源有限公司)	Phase II project of photovoltaic cell encapsulating material for solar energy equipment	110,000.00
CNBM (Luoyang) New Energy Co., Ltd.* (中建材(洛陽)新能源有限公司)	Phase II project of photovoltaic cell encapsulating material for solar energy equipment	10,000.00
CNBM (Luoyang) New Energy Co., Ltd.* (中建材(洛陽)新能源有限公司)	Photovoltaic curtain wall (Phase I)	8,000.00
Kaisheng (Zhangzhou) New Energy Co., Ltd.* (凱盛(漳州)新能源有限公司)	Cold repair and renovation project of phase I ultra-white solar glass production line	47,500.00
Kaisheng (Zhangzhou) New Energy Co., Ltd.* (凱盛(漳州)新能源有限公司)	Project of photovoltaic cell encapsulating material with annual capacity of 56 million m ²	121,800.00
CNBM (Hefei) New Energy Co., Ltd.* (中建材(合肥)新能源有限公司)	General contracting of photovoltaic wall -supplementation	1,000.00
Total		369,600.00

LETTER FROM THE BOARD

As mentioned in the above table, the Group preliminary expects the contract amount in 2023 to be RMB3,696 million, and the Company proposes to correspondingly increase the annual cap applicable to CNBMG under the Engineering Construction Equipment Procurement and Installation Framework Agreement for the year ending 31 December 2023 from RMB2 billion to RMB3.7 billion.

The Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of business of the Group on normal commercial terms. The Directors are of the view that the entering into of the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and the Proposed Revised Annual Caps as described above are fair and reasonable and in the interests of the Group and the Shareholders as a whole, since such transactions have facilitated and will continue to facilitate the operation of the Group.

2. *Supplemental Agreement for Sale And Purchase of Raw Materials Framework Agreement*

The Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement becomes effective upon approval by the Independent Shareholders which revises the existing annual caps to the Proposed Revised Annual Caps. Save for the existing annual caps, other terms and conditions in the Sale and Purchase of Raw Materials Framework Agreement will remain unchanged and in full force and effect. Set out below are the principal terms of the Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement:

Date: 2 December 2020; revised on 23 November 2022

Parties: (i) Company; and
(ii) CNBMG

Principal terms of transaction: In the original agreement, “The estimated cumulative annual amount (tax inclusive) under this agreement shall not exceed RMB601 million in 2021; shall not exceed RMB800 million in 2022; and shall not exceed RMB860 million in 2023.”

The Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement now revises it to “The estimated cumulative annual amount (tax inclusive) under this agreement shall not exceed RMB601 million in 2021; shall not exceed RMB1.2 billion in 2022; and shall not exceed RMB2 billion in 2023.”

LETTER FROM THE BOARD

Term: Effective upon the approval by the Independent Shareholders at the Third EGM of the Company, and shall be valid until 31 December 2023.

The payments for the Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and the transactions contemplated thereunder will continue to be made through internal resources of the Company.

Pricing Standards

Triumph is a wholly-owned subsidiary of CNBMG, and Triumph is an indirect controlling shareholder of the Company while Triumph Mineral is a wholly-owned subsidiary of Triumph. In order to reduce procurement costs, the Group implements centralized procurement of bulk raw materials (such as sodium carbonate and silica sand) through the centralized tender procurement business platform of Triumph Mineral. Triumph Mineral procures raw material through large scale centralized tender and sells raw materials to the Group at cost which is determined based on the tender price plus the cost of holding funds (i.e. plus 1% in the case of a one-month term contract).

Historical Amount and Revision of Existing Annual Caps

It is expected that the transaction volume of the transactions contemplated under Purchase of Raw Materials Framework Agreement may increase for the years ending 31 December 2022 and 31 December 2023. As such, the Company proposes to revise the existing annual caps.

The historical transaction amount, the existing annual caps and the Proposed Revised Annual Caps under the Sale and Purchase of Raw Materials Framework Agreement are set out below:

Unit: RMB'0,000

	For the year ended/ending 31 December					Actual amount as of 6 December 2022
	Historical actual amount 2021	Proposed Revised		Proposed Revised		
		Approved annual cap 2022	Annual Cap 2022	Approved annual cap 2023	Annual Cap 2023	
Supply of raw materials in bulk, including sodium carbonate and silica sand, by CNBMG and its subsidiaries to the Company and its subsidiaries	42,147	80,000	120,000	86,000	200,000	79,292

LETTER FROM THE BOARD

So far as the Directors are aware, as at the Latest Practicable Date, the transaction amount under the Sale and Purchase of Raw Materials Framework Agreement has not exceeded and is not expected to exceed its annual cap applicable to the transactions thereof for the year ending 31 December 2022.

In order to ensure strict compliance with the Listing Rules, the Group has strengthened the corresponding internal control measures and the implementation thereof, including suspending the procurement plans under the Sale and Purchase of Raw Materials Framework Agreement, subject to the approval of the general meeting of Shareholders.

Basis of the Proposed Revised Annual Caps

Proposed Revised Annual Caps have been determined based on the following factors, including: (i) current purchase amount of various raw materials; (ii) the Group's estimated demands for the raw materials.

Reasons for and Benefits of the Revision of Existing Annual Caps

In 2022, the Phase I Project of Photovoltaic Cell Encapsulating Material for Solar Energy Equipment of CNBM (Tongcheng) New Energy Materials Company Limited* (中國建材桐城新能源材料有限公司) and the Project of Photovoltaic Cell Encapsulating Material for Solar Equipment of CNBM (Hefei) New Energy Co., Ltd.* (中建材(合肥)新能源有限公司) have commenced operation. The project of acquisition of Kaisheng (Zhangzhou) New Energy Co., Ltd.* (凱盛(漳州)新能源有限公司) (formerly known as TG Fujian Photovoltaic Glass Co., Ltd.* (台玻福建光伏玻璃有限公司)) has been completed in October 2022. The increase in production capacity and production line will lead to a significant rise in the procurement of bulk raw materials, including sodium carbonate and silica sand. It is expected that in 2023, the construction of the 1,200-ton photovoltaic production line of Qinhuangdao North Glass Co., Ltd.* (秦皇島北方玻璃有限公司) will be completed and will commence manufacturing operation. The demand for preparation material for the 1,200-ton photovoltaic production line of CNBM (Luoyang) New Energy Co., Ltd.* (中建材(洛陽)新能源有限公司) is expected to amount to RMB1,914,434,400.

The Group has elected to use the centralised procurement business platform of Triumph Mineral to acquire a more competitive raw material procurement price due to its large-scale tender procurement, and to ensure a stable supply of raw materials in the long run.

LETTER FROM THE BOARD

The Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of business of the Group on normal commercial terms. The Directors are of the view that the entering into of the Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and the Proposed Revised Annual Caps as described above are fair and reasonable and in the interests of the Group and the Shareholders as a whole, since such transactions have facilitated and will continue to facilitate the operation of the Group.

B. CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS ONLY

Set out below is the summary of the principal terms of (i) the Supplemental Agreement for Technical Services Framework Agreement which are subject to the reporting and announcement requirements only under the Listing Rules:

1. *Supplemental Agreement for Technical Services Framework Agreement*

The Supplemental Agreement for Technical Services Framework Agreement becomes effective upon approval by the Independent Shareholders which revises the existing annual caps. Save for the existing annual caps, other terms and conditions in the Technical Services Framework Agreement will remain unchanged and in full force and effect. Set out below are the principal terms of the Supplemental Agreement for Technical Services Framework Agreement:

Date: 2 December 2020; revised on 23 November 2022

Parties: (i) the Company; and
(ii) CNBMG

Principal terms of transaction: In the original agreement, “The estimated cumulative amount (tax inclusive) of the technical services under this agreement shall not exceed RMB46 million in 2021; shall not exceed RMB18 million in 2022; and shall not exceed RMB17 million in 2023.”

The Supplemental Agreement for Technical Services Framework Agreement now revises it to “The estimated cumulative amount (tax inclusive) of the technical services under this agreement shall not exceed RMB46 million in 2021; shall not exceed RMB21 million in 2022; and shall not exceed RMB20 million in 2023.”

LETTER FROM THE BOARD

Term: Effective upon the approval by the Independent Shareholders at the Third EGM of the Company, and shall be valid until 31 December 2023.

The payments for the Supplemental Agreement for Technical Services Framework Agreement and the transactions contemplated thereunder will continue to be made through internal resources of the Company.

Pricing Standards

As a general principle, the technical service fees shall be determined in the ordinary course of business on normal commercial terms after arm's length negotiation by both parties under the principle of justice, fairness and openness.

Such technical service fees will also be determined in accordance with the following pricing principles, including:

- (i) with reference to the comparable prices of the same or same type of technical services provided by independent third party(ies) in the location of the Group or nearby area, and the prevailing market price of such transaction. The Group will obtain relevant market price information through various channels, which include (1) considering the comparable transactions (if any) conducted by independent third party(ies) in respect of such services during the same period; and (2) communication and exchange on information of prices provided by independent third party(ies) by various means, including telephone conversations, emails and meetings, with peers and trading partners in the photovoltaic glass manufacturing industry. The Company will then conclude the relevant market prices by referring to the comparable transactions conducted with independent third party(ies); and the price offered by the independent suppliers, in order to determine a fair price; or
- (ii) where there are no available prevailing market prices or where it is impracticable to obtain the relevant market price information, the Group and CNBMG will determine the price after arm's length negotiation with reference to (1) previous same or same type of transactions conducted by the Group with independent third party(ies); (2) previous same or same type of transactions conducted by CNBMG with independent third party(ies); and/or (3) the costs of equipment and materials required by CNBMG for provision of the relevant technical services, manpower involved, complexity of technical plans, advancement level of technology and duration of the construction.

LETTER FROM THE BOARD

Historical Amount and Revision of Existing Annual Caps

It is expected that the transaction volume of the transactions contemplated under Technical Services Framework Agreement may increase for the years ending 31 December 2022 and 31 December 2023. As such, the Company proposes to revise the existing annual caps.

The historical transaction amount, the existing annual caps and the proposed revised annual caps under the Technical Services Framework Agreement under the Technical Services Framework Agreement are set out below:

Unit: RMB0'000

	For the year ended/ending 31 December					Actual
	Historical	Proposed		Proposed		amount
	actual	Approved	revised	Approved	revised	as of
	amount	annual cap	annual cap	annual cap	annual cap	6 December
	2021	2022	2022	2023	2023	2022
Provision of technical services by CNBM and its subsidiaries to the Company and its subsidiaries	3,543	1,800	2,100	1,700	2,000	1,542.55

So far as the Directors are aware, as at the Latest Practicable Date, the transaction amount under the Technical Services Framework Agreement has not exceeded and is not expected to exceed its annual cap applicable to the transactions thereof for the year ending 31 December 2022.

In order to ensure strict compliance with the Listing Rules, the Group has strengthened the corresponding internal control measures and the implementation thereof, including postponing the signing of the Supplemental Agreement for Technical Services Framework Agreement, subject to the approval of the general meeting of Shareholders.

LETTER FROM THE BOARD

Basis of the proposed revised annual caps of the Technical Services Framework Agreement

The proposed revised annual caps of the Technical Services Framework Agreement have been determined based on the estimated technical services required by the Group for new projects and production line technology upgrades in 2022, mainly taking into account:

- (i) The supervision fee for the new project of Qinhuangdao North Glass Co., Ltd., amounting to RMB2.46 million;
- (ii) technical services fee of the production line of intelligent manufacturing for new projects of CNBM (Yixing) New Energy Company Limited* (中建材(宜興)新能源有限公司), a subsidiary of the Company, amounting to RMB5 million; the cost of preparing the feasibility study reports required for new projects and transformation projects, amounting to approximately RMB200,000; and the relevant service fee for maintenance and upgrading of production line equipment, amounting to approximately RMB300,000.

Reasons for and Benefits of the Revision of Existing Annual Caps

From 1 January 2022 to 6 December 2022, the actual transaction amount of the technical service fee is RMB15,425,500, which has not yet exceeded the existing annual cap of RMB18,000,000. However, based on the new projects to be implemented by the Group by the end of 2022 and the actual demand for upgrade of existing production lines, the estimated expenses for the design, engineering supervision, preparation of feasibility study report and equipment maintenance and upgrade of such projects may exceed the existing annual cap. As such, the proposed revised annual caps for 2022 and 2023 are made on a prudent basis to ensure compliance with the Listing Rules and actively facilitate the implementation of such projects as planned.

The Directors (including the independent non-executive Directors) consider that the Supplemental Agreement for Technical Services Framework Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of business of the Group on normal commercial terms. The Directors are of the view that the entering into of the Supplemental Agreement for Technical Services Framework Agreement and the proposed revised annual caps of the Technical Services Framework Agreement as described above are fair and reasonable and in the interests of the Group and the Shareholders as a whole, since such transactions have facilitated and will continue to facilitate the operation of the Group.

LETTER FROM THE BOARD

Internal Control on Continuing Connected Transactions

The Group has implemented the following measures to ensure that the annual transaction amounts under each of the 2022–2023 Supplemental Agreements will not exceed their respective proposed revised annual caps of respective years:

- (i) the subsidiaries of the Group will record and report the connected transaction amounts to the finance department monthly. The finance department will then prepare the statistics on the amounts of continuing connected transactions on a monthly basis, and jointly supervise and control the amounts of related party transactions of subsidiaries with the secretariat of the Board;
- (ii) the audit and compliance department of the Company will inspect, supervise and evaluate the specific purchase orders and/or the contract approval procedures of the Company and its subsidiaries in respect of their compliance with the internal control requirements of connected transactions on a quarterly basis, and will report the issues discovered (if any) to the audit (or review) committee under the Board in a timely manner;
- (iii) in accordance with the Listing Rules, the independent non-executive Directors and the auditors of the Company will also perform an annual review of the terms of continuing connected transactions under each of the 2022–2023 Supplemental Agreements to confirm that the transactions entered into are in accordance with the terms set out in the respective framework agreements, the pricing policy and the annual caps remain fair and reasonable, appropriate internal control procedures are in place, and will confirm so in the annual report published by the Company every year.

Information on and Relationship between the Parties to the Supplemental Agreements on Continuing Connected Transactions

The Company is principally engaged in new energy glass segment which mainly produces and sells photovoltaic original glass and its further processed products.

CNBMG, is a wholly state-owned enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company. It is a comprehensive building materials industry group and is the largest comprehensive building material group corporation in China and an enterprise of Fortune Global 500. It is deemed to be interested in 204,932,781 A Shares, representing approximately 31.74% of the total issued share capital of the Company as at the Latest Practicable Date.

LETTER FROM THE BOARD

Implications Under Listing Rules

CNBMG is deemed to be interested in 204,932,781 A Shares, representing approximately 31.74% of the total issued share capital of the Company as at the Latest Practicable Date. Therefore, CNBMG is regarded as a connected person of the Company. The transactions contemplated under each of the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement, the Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and the Supplemental Agreement for Technical Services Framework Agreement constitute continuing connected transactions of the Company.

In respect of the proposed revised annual caps for the Technical Services Framework Agreement, as all of the highest applicable percentage ratios as defined in Rule 14.07 of the Listing Rules for the Supplemental Agreement for the Technical Services Framework Agreement exceed 0.1% but less than 5%, the transactions contemplated thereunder will be subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios as defined in Rule 14.07 of the Listing Rules for the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement (the “**Relevant Supplemental Agreements**”) exceed 5% respectively, the Company is required to re-comply with the reporting, announcement and shareholders' approval requirements before the existing annual caps are exceeded in respect of the transactions under the Relevant Supplemental Agreements under Rule 14A.54(1) of the Listing Rules, and accordingly the Company proposes to adopt the Proposed Revised Annual Caps. Voting at the third extraordinary general meeting (the “**Third EGM**”) will be conducted by poll and China Luoyang Float Glass (Group) Company Limited* (中國洛陽浮法玻璃集團有限責任公司), CNBM New Material Research Institute Group Co., Ltd.* (中建材玻璃新材料研究院集團有限公司), CNBMG Triumph Mineral Resources Group Co., Ltd.* (中建材凱盛礦產資源集團有限公司), Triumph Technology Group Co., Ltd.* (凱盛科技集團有限公司), China Triumph International Engineering Co., Ltd.* (中國建材國際工程集團有限公司) and their associates will abstain from voting at the Third EGM.

Mr. Xie Jun, Mr. Ma Yan and Mr. Liu Yuquan, the executive directors and Mr. Zhang Chong, the non-executive Director of the Company; have abstained from voting in respect of the 2022–2023 Supplemental Agreements and the transactions thereunder at the Board meeting due to the fact that they are connected with CNBMG and are therefore not regarded as independent to make any recommendation to the Board.

LETTER FROM THE BOARD

Independent Board Committee

The Independent Board Committee comprising all independent non-executive Directors has been formed by the Company in accordance with the Listing Rules to advise the Independent Shareholders on the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and the Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement. Gram Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of (i) the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement and (ii) the Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement, the transactions contemplated thereunder and their respective proposed annual caps are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Shanghai Listing Rules Implications

As the A Shares of the Company are listed on the Shanghai Stock Exchange, the Company is also required to comply with the relevant requirements of the Shanghai Listing Rules. Pursuant to the Shanghai Listing Rules, the Proposed Revised Annual Caps of all the Supplemental Agreements should be aggregated with the corresponding agreements previously entered into and are subject to the Independent Shareholders' approval at the EGM.

II. DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF REMAINING 40% EQUITY INTEREST IN QINHUANGDAO NORTH GLASS CO., LTD.

References are made to (i) the announcement of the Company dated 29 April 2021 in relation to the discloseable and connected transaction announcement regarding the acquisition of 60% equity interest in Qinquangdao North Glass Co., Ltd; (ii) the circular dated 30 June 2021 in relation to the acquisition of 60% equity interest in Qinquangdao North Glass Co., Ltd; and (iii) the announcement of resolutions passed at the 2021 third extraordinary general meeting on 21 July 2021 in relation to, among other things, the consideration and approval of the shareholders of the resolution regarding the acquisition of 60% equity interest in Qinquangdao North Glass Co., Ltd. by the Company and the transaction contemplated thereunder; (iv) the announcement dated 5 August 2021 in relation to the completion of change in industrial and commercial registration of Qinquangdao North Glass Co., Ltd.; and (v) the announcement dated 23 November 2022 in relation to the acquisition of remaining 40% equity interest in Qinquangdao North Glass Co., Ltd. (the “**Acquisition Announcement**”).

As disclosed in the Acquisition Announcement, on 23 November 2022, the Company entered into the North Glass Share Transfer Agreement with Yaohua Group, pursuant to which the Company has agreed to acquire and Yaohua Group has agreed to dispose of the remaining 40% equity interest in North Glass at a consideration of RMB163,868,200 (equivalent to approximately HK\$176,977,656).

LETTER FROM THE BOARD

As at the Latest Practicable Date, North Glass is a non-wholly owned subsidiary of the Company, which is owned by the Company as to 60% and by Yaohua Group as to 40%. Upon the completion of the Acquisition, North Glass will become a wholly-owned subsidiary of the Company.

North Glass Share Transfer Agreement

Set out below are the principal terms of the Share Transfer Agreement in respect of the Acquisition:

Date: 23 November 2022

Parties: (1) Yaohua Group (as the transferor); and
(2) the Company (as the transferee)

Share Transfer

Yaohua Group agreed to dispose of and the Company agreed to acquire the remaining 40% equity interest in North Glass. From the date on which the industrial and commercial registration of changes in the transfer of the North Glass Target Equity Interest is completed (the “**Registration Completion Date**”), the Company will become the legal owner of North Glass Target Equity Interest, the Company will hold 100% equity interest in North Glass and Yaohua Group will cease to hold equity interest in North Glass.

North Glass Share Transfer Price and Payment Method

The transfer price of the Target Equity Interest was determined after arm’s length negotiations between the Company and Yaohua Group on normal commercial terms, with reference to, among others, the assets appraisal report of North Glass determining the appraisal value of the entire equity interest attributable to the shareholders of North Glass prepared by Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd.,* (中京民信(北京)資產評估有限公司) an independent asset appraiser, based on the appraisal results of the cost method (asset-based method) as the appraisal conclusion. Accordingly, the appraisal value of the entire equity interest attributable to the shareholders of North Glass as of 31 December 2021 was approximately RMB409,670,500 (equivalent to approximately HK\$442,444,140).

LETTER FROM THE BOARD

Based on the aforementioned valuation results, it is determined that the transfer price of equity interest in North Glass is 40% of the appraisal value of the entire equity interest attributable to the shareholders of North Glass abovementioned, which is RMB163,868,200 (equivalent to approximately HK\$176,977,656) (the “**North Glass Share Transfer Price**”). The Company intends to pay the North Glass Share Transfer Price in cash by installment, which will be funded by the Company’s own funds. The Company shall pay the North Glass Share Transfer Price of the Target Equity Interest to Yaohua Group in the following ways:

- The first installment: The Company shall pay 10% of the Share Transfer Price, being RMB16,386,820 (equivalent to approximately HK\$17,697,766), to Yaohua Group within 15 working days from the effective date of the North Glass Share Transfer Agreement. Within seven working days after the payment by the Company, 40% equity interest in North Glass held by Yaohua Group shall be registered under the Company’s name (that day is deemed the Registration Completion Date).
- The second installment: The Company shall pay 40% of the North Glass Share Transfer Price to Yaohua Group before 31 December 2022. After this payment, the payment shall aggregate to 50% of the North Glass Share Transfer Price.
- The third installment: The Company shall pay the remaining balance of the North Glass Share Transfer Price to Yaohua Group before 30 June 2023.

The appraisal results of the Asset Valuation Report is valid for one year, i.e. from 31 December 2021 to 30 December 2022. During such period, there were no material changes in the condition of North Glass, and meanwhile, the profits and losses of North Glass realized after the Audit Valuation Reference Date shall be borne or enjoyed by North Glass, and shall be indirectly borne or enjoyed by the Company. Therefore, the Directors are of the view that it is fair and reasonable to adopt such appraisal results as the basis for consideration.

In the process of valuation, the Directors have discussed and analyzed with the Asset Valuer in relation to the valuation target, valuation scope, valuation methods, valuation basis, valuation assumptions and the setting of parameters, etc., focusing on the reasons for the appreciation of the appraisal results on the valuation benchmark date, the reasonableness of the computation for the valuation, the sufficiency of the valuation procedures and other matters related to the Asset Valuation Report and determined that the valuation methods and valuation basis adopted in the Asset Valuation Report can give a fair view of the appraisal value of the entire equity interest of the shareholders of North Glass. In the review of the Asset Valuation Report for filing for record to CNBMG, the ultimate controlling shareholder of the Company, the Directors and Yaohua Group and the Asset Valuer have carefully discussed and analyzed issues involved in the audit opinions given by the experts audit committee and jointly completed the reply to such issues after checking and verifying the relevant information, etc. After such process, the Asset Valuation Report which is recognized by the Company and has gone through the procedures of filing for record is finally formed, and the Directors are of the view that it is fair and reasonable to adopt such valuation results as the basis for the North Glass Share Transfer Price.

LETTER FROM THE BOARD

Completion and Profit and Loss Between the Period

Yaohua Group and the Company will make their best efforts to assist and cooperate in the completion of formalities for the industrial and commercial registration of changes for the Share Transfer in a timely manner. The Handover Completion Date of the transfer of the North Glass Target Equity Interest shall be the Registration Completion Date. Since the Handover Completion Date, the Company and its authorized persons shall have full rights to take over North Glass, and be entitled to conduct production and operation activities or other disposals through North Glass as a sole shareholder.

The appointment arrangement of directors, supervisors and senior management of North Glass upon the Share Transfer shall be separately determined by the Company and Yaohua Group shall cooperate correspondingly.

The profits and losses realized by North Glass after the Audit and Valuation Benchmark Date shall be borne or enjoyed by North Glass, and indirectly borne or enjoyed by the Company.

Conditions Precedent for North Glass Share Transfer Agreement to Take Effect

North Glass Share Transfer Agreement shall become effective from the date on which all the following conditions have been satisfied:

- (i) Share Transfer Agreement has been signed by the legal representatives of North Glass and the Company or their respective authorized representative(s), with company seals of both parties affixed thereon;
- (ii) the Share Transfer as contemplated under Share Transfer Agreement has been approved by the competent authority of North Glass;
- (iii) the Share Transfer as contemplated under Share Transfer Agreement has been approved by general meeting of the Company;
- (iv) the Share Transfer as contemplated under Share Transfer Agreement has been approved by CNBMG or its authorized institution.

LETTER FROM THE BOARD

Profit Forecast in Relation to the Valuation Approach on the Equity Interests in North Glass

Both the cost method (asset-based method) and income method have been adopted in the Asset Valuation Report prepared by the Asset Valuer and after analyzing and comparing the valuation results obtained by the two methods, one of the more appropriate valuation results is used as the valuation conclusion. Through the investigation of the financial situation, the analysis of historical business performance and future planning of North Glass, and combined with the consideration of the valuation target, the purpose of the valuation, the applicable types of values, after the comparative analysis, the Asset Valuer considered that the valuation result of the cost method can more comprehensively and reasonably reflect the value of the entire equity interest of the shareholders of the appraised entity, and therefore the valuation result of the cost approach was selected by the Asset Valuer as the final conclusion of the valuation on the value of the entire equity interest of the shareholders of North Glass. For further details in respect of the analysis and selection of the valuation results, please refer to the Asset Valuation Report in Appendix I of the circular. As income method has been adopted as one of the valuation methods in the process of forming the conclusion of the valuation of the equity interests in North Glass in the Asset Valuation Report, the valuation under the income method is deemed as a profit forecast under Rule 14.61 of the Listing Rules. As such, the Company discloses the following details of the valuation in accordance to Rule 14.62 of the Listing Rules.

The Asset Valuation Report is prepared based on the following principal assumptions:

(I) Basic assumptions

1. Transaction assumption

Transaction assumption assumes that all assets to be valued are in the process of transaction, and the valuer will conduct the valuation with reference to a simulated market based on the transaction conditions of assets to be valued. The transaction assumption is the most fundamental prerequisite for the further implementation of the asset valuation.

2. Open market assumption

Open market assumption assumes that with respect to the asset traded or to be traded in the market, the asset transaction parties are equal and have opportunity and time to access to enough market information so as to make a rational judgment on the function, intended purpose and transaction price of the assets. The open market assumption is made on the basis that the assets are available for trading openly in the market.

3. Assumption on continuing operation

Assumption on continuing operation is based on the assumption that the appraised enterprise continues to operate in accordance with its original business purpose and operating methods after the valuation benchmark date.

LETTER FROM THE BOARD

(II) General assumptions

1. It is assumed that there are no material changes in the relevant existing laws, regulations and policies, and macroeconomic conditions of the PRC as well as in the local political, economic and social environment of such places where the parties to the transaction are operating after the valuation benchmark date;
2. It is assumed that, after the valuation benchmark date, the persons operating the appraised entity are accountable, and the management of the company is capable of performing their duties;
3. It is assumed that the appraised entity has fully complied with all relevant laws and regulations.

(III) Specific Assumptions

1. It is assumed that the accounting policies to be adopted by the appraised entity after the valuation benchmark date are basically consistent with the accounting policies adopted when the report is prepared in respect of key aspects;
2. It is assumed that the business scope and practice of the appraised entity will remain consistent with the current directions after the valuation benchmark date based on the existing management practice and management level of the appraised entity;
3. The type of the value is the market value, regardless of the impact of the economic behavior involved in the valuation purpose on the business operation of the enterprise;
4. It is assumed that the appraised entity will have even cash inflow and cash outflow after the valuation benchmark date;
5. It is assumed that the tax policies currently applicable to the appraised entity will not change significantly in the future;
6. This assessment assumes that the basic information and financial information provided by the client and appraised enterprise are true, accurate, and complete.

The Board has reviewed the key assumptions upon which the profit forecast was based and is of the view that the profit forecast was made after due and careful enquiry.

Grant Thornton LLP (Special General Partnership) has been engaged by the Company to review the arithmetical calculation and compilation of the discounted future estimated cash flows upon which the Asset Valuation Report prepared by the Asset Valuer were based.

A report from Grant Thornton LLP (Special General Partnership) and a letter from the Board are included in Appendix III and Appendix V to this circular respectively for the purpose of Rule 14.62 of the Listing Rules.

LETTER FROM THE BOARD

Supplemental Information in Relation to the Appreciation in the Appraisal Value of the Net Assets over the Book Value of the Equity Interests in North Glass under the Cost Approach

According to the Asset Valuation Report, the appraisal value of the net assets of North Glass arrived at in the valuation by the adoption of cost approach (asset-based approach) represents an appreciation of RMB81,796,200 over its book value. According to the opinions of the Asset Valuer, such appreciation was mainly due to:

- (I) Current assets: the appraisal value represents an appreciation of RMB14,015,581.51, with the appreciation rate of 7.90%, which was due to the fact that certain raw materials, commodities in stock, and goods in transit were valued based on their market selling prices, of which the appraisal value included some profits, which resulted in such appreciation.
- (II) Fixed assets – Buildings and structures: the appraisal value represents an appreciation of RMB33,954,994.44. The appreciation was mainly due to the fact that: 1. the majority of the valued buildings and structures reported by the appraised entity were completed from 2010 to 2016, which were built in a relatively early year. During the construction period, the construction costs increased due to the significant increase in the prices of construction materials, especially the labour cost; 2. the age over which the appraised entity provides for depreciation for the buildings and structures was shorter than the economic service life used in the valuation.
- (III) Equipment: the appraisal value represents a depreciation of RMB3,522,273.48, with the impairment rate of 5.43%, of which:

1. Machinery and equipment:

The appreciation rate of the original appraisal value of machinery and equipment was 3.70%. The majority of the machinery and equipment was purchased from 2010 to 2015, and has been in use for nearly 5–10 years. The prices of raw materials and labour costs of machinery and equipment have been on the rise in recent years. The replacement cost for this valuation was determined based on the normal valuation benchmark date and is therefore generally appreciated.

The impairment rate of the net appraisal value was 5.56%. The depreciation of the net appraisal value is mainly due to the fact that most of the production lines of the enterprise have been in use for many years and the tear rate of the equipment is relatively high, while the on-site observed newness rate is relatively low, and the life being applied for the calculation of depreciation of the book value of certain machinery and equipment is longer than the economic life being considered in the valuation. The relative net appraisal value is therefore depreciated.

LETTER FROM THE BOARD

2. Vehicles

The impairment rate of the original appraisal value of vehicles was 3.53%. In addition to one Buick commercial vehicle, a Nissan utility vehicle was also included in the valuation. The valuation took into account the downward trend of market prices based on the valuation of similar vehicles at the valuation benchmark date. The appraisal original value is therefore overall depreciated.

The appreciation rate of the net appraisal value was 1.83%, which is mainly because the net book value of the Buick commercial vehicle was obtained by depreciation based on the purchase price; while the net appraisal value was calculated by adjusting the market transaction price, and the net appraisal value was therefore appreciated compared to the net book value.

3. Electronic equipment

The impairment rate of the original value of electronic equipment was 11.30%. The market value of electronic equipment has decreased year by year due to its technological update. Most electronic equipment in enterprises is office equipment, such as computers, and their market value decreases more rapidly each year. At the same time, certain electronic equipment was purchased more than three years ago, so the replacement cost has declined significantly, and the original appraisal value of electronic equipment was therefore generally depreciated.

The appreciation rate of the net appraisal value was 8.81%. The electronic equipment is in normal use with positive technical indicators. More than half of the electronic equipment has been depreciated, and the depreciation of certain equipment has a significant difference from the economic life of the newness rate considered in the valuation. The value in continuous use of the electronic equipment is considered in the valuation. As such, the net appraisal value of electronic equipment was therefore appreciated under the premise of impairment of replacement cost.

- (IV) Projects under construction – equipment installation project: the appraisal value represents a depreciation of RMB7,022,054.18, with an impairment rate of 21.91%, mainly due to the year-on-year decrease in the transaction price of such equipment following the improvement of technology, and the age over which the enterprise provides for depreciation is different from the way in which the newness rate is calculated in the valuation and the appraisal value is therefore depreciated.
- (V) Intangible assets – the land use rights: the land value of the three land use rights in the valuation (including Dong Fang Guo Yong (Basuo) Zi No. 430, Ji (2021) Qinhuangdao City Real Property Rights No. 0074617 and Ji (2021) Qin Kai Real Property Rights No. 0001563) had increased by RMB41,458,525.62, representing an appreciation rate of 32.03%. The main reason for the appreciation is that the price of land acquired by the enterprise is relatively low, and the price of industrial land has increased in recent years as compared with the price of the land when being acquired.

LETTER FROM THE BOARD

(VI) Intangible assets – other intangible assets: no changes in appreciation or impairment.

(VII) Liability: no changes in appreciation or impairment.

Supplemental Information in Relation to the Calculation of the Valuation of the Equity Interests in North Glass by the Adoption of Income Approach

Both the cost method (asset-based method) and income method have been adopted in the Asset Valuation Report prepared by the Asset Valuer and after analyzing and comparing the valuation results arrived at through the two methods, one of such valuation results is considered as more appropriate and is used as the valuation conclusion. The Asset Valuer has selected the valuation result under the cost approach as the final valuation conclusion in the valuation of the value of the entire equity interest of the shareholders of North Glass. As supplemental information to this circular, details of the calculation method, foundation and basis of the valuation conclusion arrived at through the income approach are set out below according to the opinion of the Asset Valuer:

The foundation of forecast is as follows:

The forecast of revenue, cost and expense of North Glass is prepared by the management of the enterprise through a comprehensive analysis based on the future planning of the enterprise, the actual operating data for 2020, 2021 and the first quarter of 2022 and the financial budget for 2022; in compliance with the relevant existing laws and regulations of the PRC, and in accordance with the national macro policies, the national and regional macroeconomic conditions and industry conditions, as well as, the development planning and operation plan of the company, the advantages, disadvantages, opportunities and risks, etc., especially the market environment faced by the company and its future development prospects and potentials.

Forecast basis includes the following aspects:

- (1) Making forecasts using historical data of the company and various financial, economic and technical indicators of similar enterprises and companies in the industry;
- (2) Making forecasts using relevant national laws and regulations and relevant national tax and financial policies;
- (3) Making reasonable forecasts using market, industry, and actual conditions of the company;
- (4) Making forecasts using the future development plans, fixed asset investment plans and operating plans of the company.

The key data forecasts are described as follows:

- (1) Designing revenue forecast statement (revenue and cost forecasts), mainly based on the actual revenue for the latest year at the benchmark date, and referring to the revenue forecast statement, production plan and future development planning provided by the enterprise;

LETTER FROM THE BOARD

- (2) Identifying the main reasons for the historical growth of earnings of the enterprise and, on that basis, forecasting the change in growth in future years;
- (3) Referring to the financial plan and business plan of the enterprise and analyzing the factors that will have a significant impact on the enterprise's earnings in the expected years;
- (4) Considering the current national industrial policy, the macro background of industry development, market demand and changing trends;
- (5) The company's operations are expected to enter a stable development period after 2026, with the increase in revenue, costs and capital expenditures, and working capital maintaining at the level of the previous year and the net cash flows remaining unchanged;
- (6) The impact of changes in various factors on the expected earnings is measured, compared and summarized, and then an earnings forecast statement is prepared.

The specific calculation process is as follows:

1. Operating income

The operating income is mainly derived from the sales revenue of glass products, while other business income is derived from the internal sales and processing services of related parties. The total operating income of the enterprise for the latest three years are summarized as follows:

Monetary Unit: RMB

Item	Operating income		
	2019	2020	2021
Revenue from principal			
Businesses	447,173,425.90	463,989,893.73	461,009,036.62
Sales volume			
Color float glass (<i>weight case</i>)	5,886,779.71	5,328,637.72	3,553,635.24
Unit selling price			
Color float glass			
(<i>RMB/weight case</i>)	75.76	87.07	129.73
Income from other businesses	6,234,165.49	21,559,188.97	4,903,396.73
Total operating income	452,240,143.44	485,549,082.70	465,912,433.35

LETTER FROM THE BOARD

The calculation of the above table shows that the operating income of the enterprise has experienced relatively small fluctuation, while the sales volume and unit price experienced relatively significant fluctuation, which is mainly due to the 600t/d float glass production line in production has served beyond its service life and its capacity conversion rate and production yield rate have decreased significantly. Meanwhile, the operation rate became insufficient under the influence of the pandemic, resulting in a year-on-year decrease in sales volume; the unit price of sales has increased due to the strong demand in the float glass market. Based on the above analysis, there was relatively minimal fluctuation in the enterprise's operating income.

The forecast of the operating income of the enterprise by classification for the future years is as follows:

(1) Analysis on the forecast of sales volume

For the supply-side reform in the glass industry, there are three trends: (1) to eliminate low-end production techniques and encourage enterprises to expand into the field of deep processing; (2) mergers and reorganization are encouraged to enhance the concentration and eliminate small factories in plate glass industry due to the low concentration in the industry; (3) the requirements on newly-added production capacity are more and more strict and the assessment is more quantitative, the newly-added production capacity must be equivalent or reduced to replace the newly-added capacity. In 2015, the economic downturn weakened the demand in the industry, and the growth rate of the newly-added float glass production capacity decreased significantly. Since 2016, Document No.34 and other documents strictly banned filing and building of new cement clinker and plate glass projects which aim to expand production capacity. For a new project which is necessary to be constructed, reduction in or equivalent of production capacity is required to implement in replacement, which limits the increase in domestic production capacity of plate glass. According to the database of Zhong Shang Industry Research Institute, the national plate glass output maintained its growth in 2021, with a stable increase in recent years. The national plate glass output in December 2021 was 85.96 million weight cases, representing a year-on-year increase of 3.2%, while 1,016.65 million weight cases in 2021, representing a year-on-year steady increase of 8.4%.

As for inventory, industry statistics show that as of December 16, the total inventory of production enterprises in key monitoring provinces was 32.48 million weight cases, a reduction of 640,000 weight cases with a decrease of 1.93% from the previous week. As for downstream real estate, according to the National Bureau of Statistics, the property development investment in China in 2021 is RMB13,731.4 billion, representing a year-on-year increase of 6.0%; representing an increase of 13.2% as compared with 2019, with a two-year average growth of 6.4%. Of which, the investments on residential properties was RMB10,358.7 billion, representing an increase of 8.1%. The area under construction by property development enterprises was 9,596.54 million sq.m., representing a year-on-year increase of 6.3%. Of which, the area under construction for residential properties was 6,795.4 million sq.m., representing an increase of 6.5%. The area of newly commenced properties was 1,828.2 million sq.m., representing a

LETTER FROM THE BOARD

decrease of 9.1%. Of which, the area of newly commenced residential properties was 1,350.17 million sq.m., representing a decrease of 8.4%. The completed construction area of properties was 687.54 million sq.m., representing an increase of 16.2%. Of which, the completed construction area of residential properties was 495.82 million sq.m., representing an increase of 16.2%. The nationwide real estate developers contributed capital of RMB18,336.2 billion in 2021, representing a year-on-year increase of 7.2%; representing an increase of 14.2% as compared with 2019, with a two-year average growth of 6.9%. Of which, domestic loans amounted to RMB2,164 billion, representing a decrease of 10.8%; utilization of foreign investment amounted to RMB900 million, representing a decrease of 41.7%; self-financing funds amounted to RMB5,937.8 billion, representing an increase of 4.8%; deposits and pre-receipts amounted to RMB6,715.6 billion, representing an increase of 17.0%; and personal mortgage loans amounted to RMB2,963.3 billion, representing an increase of 9.8%.

Downstream demand for float glass is mainly from real estate, accounting for over 65%. Glass is needed in the late cycle of the building process, the demand and prosperity of which are therefore closely related to the real estate cycle. Architectural glass can be divided into the energy-saving glass and household glass in accordance with the application scenarios. Energy-saving glass is widely used in exterior windows and skylights to stabilize indoor temperature and reduce energy consumption of buildings, while household glass is mainly used in partitions, glass doors and vanity mirrors. Multi-layer energy-saving glass in building construction has replaced the unprocessed raw glass to meet the higher requirements of energy saving of buildings. The consumption of single square meters of raw glass in buildings will keep rising due to the popularization of energy-saving glass with double and triple layers, increase in areas of window openings in rooms as well as the widespread application of glass curtain walls. The demand for automobiles and exports accounts for a total of approximately 10%, and automotive glass can be divided into front windshield glass, sunroof glass and car window glass based on the installation position. According to the Motor Vehicle Safety Glass Approval Draft disclosed by the MIIT in 2020, the front windshield glass shall use tempered laminated glass to ensure the safety of drivers and passengers. With the resumption of automobile production, improvement on SUV and new energy vehicle penetration rate and the constant increase in car windows and sunroofs, the demand for auto glass will rise continuously.

To sum up, the demand in float glass market is booming in 2021. Due to the impact of elimination of excess capacity, it is expected that the market demand in float glass industry will still be greater than supply in the next few years. For the appraised entity, the capacity utilization rate and product conversion rate decrease, despite the good market conditions and less pressure to de-stocking, the overall sales volume in 2022 decreased due to the decline in production volume. At the same time, the appraised entity is expected to conduct cold repair and modification in 2023, which will lead to a three-month suspension of production and thus a further decrease in sales volume in 2023. However, upon the completion of the cold repair and modification, the appraised entity will experience an increase in capacity utilization rate and product conversion rate. The output will rise steadily and eventually approach the maximum design capacity.

LETTER FROM THE BOARD

(2) *Forecast of unit selling price*

Currently, the demand and supply in the float glass market is imbalanced. According to the data of iFinD, as of January 2022, the operation rate of float glass enterprises was nearly 90%. New incremental production lines are currently strictly prohibited, following the constant launch of production restriction policies since 2013. In July 2021, the MIIT promulgated the revised Implementation Measures on Production Capacity Replacement for the Cement and Glass Industry (《水泥玻璃行業產能置換實施方法》), which clearly prohibits the filing and construction of new flat glass projects with expanded production capacity, and requires the formulation and implementation of production capacity replacement for new projects. The measures also dealt with the zombie production, stipulating that since 2013, production lines that had been suspended for two consecutive years or more, as well as photovoltaic rolled glass production capacity shall not be used for replacement. According to statistics from Sublime China Information and Oilchem, as of 31 January 2022, a total of 106 float glass production lines were suspended in China, among which 31 production lines have been replaced and auctioned. Most of the remaining production lines have been halted for over two years. Following the gradual clearance of the zombie production capacity, the total production capacity of float glass will hardly increase significantly in the future.

High price level has led to stronger desire of production resumption and weak intention of cold repair. Although the current price of raw float glass has fallen as compared with the peak in 2021, it is still at a relatively high level historically, and the short-term increment of supply may outnumber the decrement under better profit. Based on the above analysis, combined with the analysis of actual sales data of the appraised entity of 2021 and the first quarter of 2022, the sales price of float glass products in 2022 shows a downward trend, and it is estimated that the sales unit price of the products will remain at RMB119 per weight case in the coming years.

LETTER FROM THE BOARD

(3) Forecast of sales revenue

To sum up, the income from the main products businesses for the next few years is forecasted based on the above analysis, and the income from other businesses is forecasted mainly with reference to the average level for historical years and the future planning of the enterprise. Accordingly, the forecasts of the sales revenue are as follows:

Monetary Unit: RMB

Item	Operating income					Perpetual period
	2022	2023	2024	2025	2026	
Revenue from principal businesses	359,450,204.03	285,445,750.26	444,026,722.63	466,228,058.76	489,539,461.69	489,539,461.69
Sales volume						
Floating clear glass (weight case)	3,020,589.95	2,398,703.78	3,731,317.00	3,917,882.85	4,113,776.99	4,113,776.99
Unit selling price (yuan)						
Floating clear glass (RMB/case)	119.00	119.00	119.00	119.00	119.00	119.00
Income from other businesses	<u>4,952,430.70</u>	<u>5,001,955.00</u>	<u>5,051,974.55</u>	<u>5,102,494.30</u>	<u>5,153,519.24</u>	<u>5,153,519.24</u>
Total operating income	<u><u>364,402,634.73</u></u>	<u><u>290,447,705.26</u></u>	<u><u>449,078,697.18</u></u>	<u><u>471,330,553.06</u></u>	<u><u>494,692,980.94</u></u>	<u><u>494,692,980.94</u></u>

LETTER FROM THE BOARD

2. *Forecast of operating cost*

The historical operation cost of the company is as follows:

Monetary Unit: RMB

Item	Operating cost		
	2019	2020	2021
Cost of principal business	442,235,538.57	376,914,306.27	289,582,510.32
Raw and auxiliary materials	181,342,509.20	152,736,748.35	129,038,122.28
Fuel and power	187,843,898.41	155,102,528.51	101,738,683.15
Labor and benefits	24,822,624.52	29,813,779.34	25,323,667.72
Manufacturing cost	48,226,506.44	39,261,250.07	33,482,037.17
Cost of other business	5,712,560.68	20,589,670.47	4,623,219.93
Total	447,948,099.25	397,503,976.74	294,205,730.25

The forecast of operating cost is made through the classification of the corresponding operating cost to each operating income by raw and auxiliary materials, fuel and power, Labor and benefits and manufacturing cost. For raw and auxiliary materials, fuel and power, the forecast was made by taking into account historical costs, production yield rate and estimated energy consumption, and combining the unit selling price of raw and auxiliary materials, fuel and power; For labor and benefits, the forecast was made with reference to historical data and the future average wage level of the Company's personnel; For manufacturing cost, the forecast was made with reference to historical costs and excluding irrelevant costs. After the forecasts for each of the above cost categories, the appraisers then verified the reasonableness of the operating costs by combining the historical annual gross margin of the enterprise and the average gross margin level of the industry.

LETTER FROM THE BOARD

Based on the above situation, the forecast of the operating cost of the company in the future is as follows:

Monetary Unit: RMB

Item	Operating cost					
	2022	2023	2024	2025	2026	Perpetual period
Cost of principal business	280,942,435.74	228,963,083.32	346,954,656.42	363,912,287.65	381,897,483.00	381,897,483.00
Raw and auxiliary materials	129,167,160.40	88,502,377.30	133,114,950.02	145,893,985.22	156,106,564.19	156,106,564.19
Fuel and power	101,840,421.83	77,212,894.23	138,629,991.66	141,868,841.85	148,900,850.63	148,900,850.63
Labor and benefits	26,497,427.49	21,997,941.99	28,184,863.17	28,889,484.75	29,582,832.39	29,582,832.39
Manufacturing cost	23,437,426.02	41,249,869.80	47,024,851.57	47,259,975.83	47,307,235.80	47,307,235.80
Cost of other business	4,645,746.21	4,692,203.68	4,739,125.71	4,786,516.97	4,834,382.14	4,834,382.14
Total	<u>285,588,181.95</u>	<u>233,655,287.00</u>	<u>351,693,782.13</u>	<u>368,698,804.62</u>	<u>386,731,865.14</u>	<u>386,731,865.14</u>

3. Forecast of taxes and surcharges

The business taxes are urban construction tax, education surcharge, land use tax, property tax, environmental protection tax and stamp tax, etc. In particular, the tax base for land use tax is the area of land and the tax base for property tax is original book value of housing and buildings. The tax bases for environmental protection tax and stamp tax are forecasted based on the average level of their proportion to operating revenue in historical year, and the tax basis for all other operating taxes is value-added tax.

LETTER FROM THE BOARD

For details of the forecast results, please refer to the table below:

Monetary Unit: RMB

Tax category	2022	2023	2024	2025	2026	Perpetual period
Urban construction tax	906,857.47		1,236,043.90	1,615,889.11	1,671,097.13	1,671,097.13
Education surcharge	388,653.20		529,733.10	692,523.90	716,184.48	716,184.48
Local education surcharge	259,102.14		353,155.40	461,682.60	477,456.32	477,456.32
Stamp tax	109,320.79	87,134.31	134,723.61	141,399.17	148,407.89	148,407.89
Property tax	1,037,182.60	1,037,182.60	1,037,182.60	1,037,182.60	1,037,182.60	1,037,182.60
Land use tax	934,090.64	934,090.64	934,090.64	934,090.64	934,090.64	934,090.64
Environmental protection tax	219,320.00	174,809.36	270,283.28	283,675.82	297,736.77	297,736.77
Total	3,854,526.84	2,233,216.91	4,495,212.52	5,166,443.84	5,282,155.83	5,282,155.83

4. *Forecast of selling expenses*

The selling expenses comprise of depreciation, salary, miscellaneous customs clearance expense, office expense, exhibition expense, entertainment expense, others, etc.

In forecasting, the selling expenses are divided into two parts, including the part that is directly related to the revenue and the part that is variable but not directly related to the revenue. The selling expenses that are directly related to the revenue, such as salary, generally increase as the selling revenue increases, and are forecasted by excluding the relevant exceptional impact factors and calculated based on the average ratio of such type of historical administrative expense item to revenue. The selling expenses that are not directly related to the revenue, such as miscellaneous customs clearance expense, shall be calculated separately based on the actual situation of the expenses.

No forecast will be made for the incidental and non-operating expenses in the future.

LETTER FROM THE BOARD

For details of the forecast results, please refer to the table below:

Monetary Unit: RMB

Item	2022	2023	2024	2025	2026	Perpetual period
Salary	676,501.87	509,635.75	906,175.33	951,076.33	998,218.30	998,218.30
Exhibition expense	140,533.63	129,290.94	155,149.13	178,421.50	205,184.72	205,184.72
Entertainment expense	14,350.42	13,202.39	15,182.75	17,460.16	20,079.18	20,079.18
Depreciation and amortized expenses	2,580.46	2,580.46	2,580.46	2,580.46	2,580.46	2,580.46
Office expense	1,203.60	1,227.67	1,411.82	1,623.60	1,867.14	1,867.14
Travel expense	58,259.80	58,842.40	67,668.76	77,819.07	89,491.93	89,491.93
Miscellaneous customs clearance expense	2,090,000.00	2,918,900.00	3,356,735.00	3,860,245.25	4,439,282.04	4,439,282.04
Others	5,115.58	5,217.89	6,000.57	6,900.66	7,935.75	7,935.75
Total	2,988,545.36	3,638,897.50	4,510,903.81	5,096,127.02	5,764,639.52	5,764,639.52

5. *Forecast of administration expenses*

The administration expenses mainly comprise salary, office expense, travel expense, entertainment expense, depreciation and amortization, transportation expense, utilities, etc.

In forecasting, the administration expenses are divided into two parts, including the part that is directly related to the revenue and the part that is variable but not directly related to the revenue. The administration expenses that are directly related to the revenue, e.g., travel expense, generally increase as the selling revenue increases, and are forecasted by excluding the relevant exceptional impact factors and calculated based on the average ratio of such type of historical administrative expense item to revenue. The administration expenses that are not directly related to the revenue, e.g., office expense, shall be calculated separately based on the actual situation of the expenses.

The current salary standard and the employee recruitment plan in the following several years shall be considered in the forecast of salary and the certain growth of annual salary per capita shall be considered in the future years.

As for the depreciation and amortization, it is expected that there will have no significant changes in the fixed assets and intangible assets in the future years. As such, the forecast of the depreciation and amortization in the future years shall be made with reference to the current depreciation and amortization by excluding depreciation and amortization of non-operating assets.

LETTER FROM THE BOARD

No forecast will be made for the incidental and non-operating expenses in the future.

For details of the forecast results, please refer to the table below:

Monetary Unit: RMB

Item	2022	2023	2024	2025	2026	Perpetual period
Salary	10,458,360.73	12,021,610.44	13,103,555.38	14,282,875.36	15,568,334.15	15,568,334.15
Labor protection costs	897.74	942.63	989.76	1,039.24	1,091.21	1,091.21
Property insurance premiums	164,284.31	172,498.52	181,123.45	190,179.62	199,688.60	199,688.60
Depreciation of fixed assets	272,076.93	285,680.78	299,964.82	314,963.06	330,711.21	330,711.21
Repair expense	92,521.31	97,147.38	102,004.75	107,104.98	112,460.23	112,460.23
Amortisation of intangible assets	467,602.47	467,602.47	467,602.47	467,602.47	467,602.47	467,602.47
Entertainment expense	196,829.44	206,670.92	217,004.46	227,854.68	239,247.42	239,247.42
Travel expense	163,955.36	172,153.12	180,760.78	189,798.82	199,288.76	199,288.76
Transportation expense	35,346.53	37,113.86	38,969.55	40,918.03	42,963.93	42,963.93
Office expense	113,339.76	119,006.75	124,957.09	131,204.94	137,765.19	137,765.19
Utilities	76,302.84	80,117.99	84,123.89	88,330.08	92,746.58	92,746.58
Litigation fee	457,289.50	480,153.97	504,161.67	529,369.75	555,838.24	555,838.24
Consultation fee	1,946,641.37	2,043,973.44	2,187,051.58	2,340,145.19	2,503,955.35	2,503,955.35
Property management fee	529,476.34	555,950.16	583,747.67	612,935.05	643,581.81	643,581.81
Expenses on Party building	222,332.21	233,448.82	245,121.26	257,377.32	270,246.19	270,246.19
Others	3,492,889.84	4,363,992.80	4,669,472.30	4,996,335.36	5,346,078.84	5,346,078.84
Total	18,690,146.68	21,338,064.04	22,990,610.87	24,778,033.98	26,711,600.18	26,711,600.18

LETTER FROM THE BOARD

6. *Forecast of R&D expenses*

R&D expenses mainly include direct materials, direct labor costs, etc.. For R&D expenses, it is calculated based on the average ratio of such historical R&D expense items to revenue.

For the forecast results, please refer to the table below:

Monetary Unit: RMB

Item	2022	2023	2024	2025	2026	Perpetual period
R&D expenses	2,232,506.03	2,332,968.80	2,437,952.40	2,547,660.26	2,662,304.97	2,662,304.97

7. *Forecast of finance expenses*

The finance expenses mainly represent the interest expense, interest income and handling fees, etc..

The interest income and handling fees shall not be forecasted this time due to the small amount and non-sustainability.

The interest expense shall be forecasted based on the existing borrowings and the expected borrowing plan in the future.

For details of the forecast results, please refer to the table below:

Monetary Unit: RMB

Item	Forecast year					Perpetual period
	2022	2023	2024	2025	2026	
Interest expense	7,500,000.00	12,495,000.00	7,500,000.00	7,500,000.00	7,500,000.00	7,500,000.00
Total	<u>7,500,000.00</u>	<u>12,495,000.00</u>	<u>7,500,000.00</u>	<u>7,500,000.00</u>	<u>7,500,000.00</u>	<u>7,500,000.00</u>

LETTER FROM THE BOARD

8. *Forecast of non-operating income and expenses*

The amount of the non-operating income and non-operating expense in historical years was relatively small. Such income or expense in the historical years were irregular and lack of continuity and they are unable to be forecasted accurately in the future years. Therefore, no forecast will be made in the future years.

9. *Forecast of gain on disposal of assets and other income*

The gain on disposal of assets represents the gain from disposal of fixed assets and projects under construction. The amount in the historical years was relatively small and subject to a large number of uncertainties. Therefore, no forecast has been made here;

Other income represents various subsidies. There was no continuity in the occurrence of such income in the historical years and the contingency was relatively high. Therefore, no forecast has been made here.

10. *Forecast of income tax*

In accordance with the requirements under the Enterprise Income Tax Law of the People's Republic of China and the Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China, the income tax rate of the appraised entity is 25%. The forecast of the income tax in the future years shall be made based on such tax rate. In accordance with the requirements under the Announcement of the MoF and the SAT on Further Improvement on the Pre-tax Addition Deduction Policy for R&D Expenses (Announcement No. 13 [2021] of the MoF and the SAT), if the actual R&D expenses incurred by manufacturing enterprises in carrying out R&D activities are not included in the profit or loss of the current period as intangible assets, they will be deducted before tax at 100% of the actual amount from 1 January 2021 on the basis of the actual deduction in accordance with the regulations.

LETTER FROM THE BOARD

11. Forecast of depreciation and amortization

The depreciation and amortization represent the depreciation of fixed assets and the amortization of intangible assets. The asset depreciation and amortization shall be forecasted with reference to the historical depreciation and amortization standard and the increase in the fixed assets and intangible assets. For details, please refer to the table below:

Monetary Unit: RMB

Item	2022	2023	2024	2025	2026	Perpetual period
I. Fixed assets for management	272,076.93	285,680.78	299,964.82	314,963.06	330,711.21	330,711.21
Administrative amortization	467,602.47	467,602.47	467,602.47	467,602.47	467,602.47	467,602.47
II. Fixed assets for sale	2,580.46	2,580.46	2,580.46	2,580.46	2,580.46	2,580.46
Amortization for sales						—
III. Depreciation and amortization for production	7,960,567.28	17,163,692.28	20,231,400.61	23,395,000.00	23,395,000.00	23,395,000.00
Total	8,702,827.14	17,919,555.99	21,001,548.36	24,180,145.99	24,195,894.14	24,195,894.14

12. Forecast of capital expenditure

The capital expenditure comprises two parts, including:

- (1) the subsequent investment in the project under construction as at the valuation benchmark date;
- (2) the expenditure for replacing of the long-term assets to maintain the existing production scale;

Since the construction-in-progress of the appraised entity has been added back as non-operating assets on the valuation benchmark date, the follow-up investment in the construction-in-progress is not predicted. Since the appraised entity plans to carry out cold repair and modification of the production line in production in 2023, the cost of cold repair and modification will be considered in the 2023 capital expenditure forecast. In the subsequent years, only forecast for the expenditure for replacing of the fixed assets to maintain its existing operation scale has been made. According to the renewal pattern of fixed asset of the enterprise, there is relatively low capital expenditure in the initial period of construction; the proceeding of production has led to abrasion of fixed assets, resulting in increase of the capital expenditure; for maintaining simple re-production under the existing scale after the stable period, the capital expenditure is basically the same as the depreciation, and the net value of the fixed assets maintains at a basically stable level.

LETTER FROM THE BOARD

Forecast of the capital expenditure is as follows:

Monetary Unit: RMB

Item	2022	2023	2024	2025	2026	Perpetual period
Capital expenditures	2,012,908.00	155,288,260.00	995,000.00	995,000.00	995,000.00	24,195,894.14

13. Forecast of the increase in the working capital

The changes in working capital represent the cash appropriated for the provision of commercial credit and the cash, accounts receivable and accounts payable, inventories, etc. required to be maintained for the normal operation, with the changes in the operating activities of the company; and some other receivables and payables necessary in the operation.

Since the production cycle of the enterprise is relatively regular, the operating capital of previous years has been verified and counted to determine the annual operating capital of the enterprise asset group. The specific determination formula is as follows:

Changes in the working capital = working capital in the current year – working capital in the previous year

Annual working capital = cash + receivable + inventories – payable

Where:

Receivable = total operating income \div receivables turnover ratio

Among them, receivables mainly include accounts receivable (deducting accounts receivable in advance), notes receivable, and other receivables related to business operation.

Inventory = total operating cost \div inventory turnover ratio

Accounts payable = total operating cost \div accounts payable turnover ratio

Among them, payable mainly include accounts payable (deducting accounts payable in advance), bills payable and other payables related to business operations, etc.

LETTER FROM THE BOARD

The forecast results are shown in the Working Capital Forecast Table below:

Monetary Unit: RMB

Item	2022	2023	2024	2025	2026	Perpetual period
Working capital	90,914,873.74	73,086,854.89	109,461,000.68	114,606,180.18	120,763,987.36	120,763,987.36
Changes in the working capital	-5,358,442.09	-17,828,018.84	36,374,145.79	5,145,179.50	6,157,807.18	–

14. Free cash flow of the enterprise

The free cash flow of the enterprise for each year in the future is arrived at based on the result of each of the forecast above.

For the forecast results, please refer to the table below:

Monetary Unit: RMB0'000

Item	2022	2023	2024	2025	2026	Perpetual period
I. Operating income	36,440.26	29,044.77	44,907.87	47,133.06	49,469.30	49,469.30
Less: Operating cost	28,558.82	23,365.53	35,169.38	36,869.88	38,673.19	38,673.19
Business taxes and surcharges	385.45	223.32	449.52	516.64	528.22	528.22
Selling expenses	298.85	363.89	451.09	509.61	576.46	576.46
Administration expenses	1,869.01	2,133.81	2,299.06	2,477.80	2,671.16	2,671.16
R&D expenses	223.25	233.30	243.80	254.77	266.23	266.23
Finance expenses	750.00	1,249.50	750.00	750.00	750.00	750.00
II. Operating profit (“” for loss)	4,354.87	1,475.43	5,545.18	5,754.50	6,004.20	6,004.20
Add: Non-operating income	0.00	0.00	0.00	0.00	0.00	0.00
Less: Non-operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
III. Total profit (“” for total loss)	4,354.87	1,475.43	5,545.18	5,754.50	6,004.20	6,004.20
Less: Income tax expenses	719.58	310.53	1,325.35	1,374.93	1,434.49	1,434.49

LETTER FROM THE BOARD

Item	2022	2023	2024	2025	2026	Perpetual period
IV. Net profit (“-” for net loss)	3,635.29	1,164.89	4,219.83	4,379.57	4,569.71	4,569.71
Add: Depreciation and amortization	870.28	1,791.96	2,100.15	2,418.01	2,419.59	2,419.59
Interest expense	562.50	937.13	562.50	562.50	562.50	562.50
Less: Capital expenditure	201.29	15,528.83	99.50	99.50	99.50	2,419.59
Less: Increase in working capital	-535.84	-1,782.80	3,637.41	514.52	615.78	0.00
V. Operating cash flow	5,402.63	-9,852.05	3,145.57	6,746.07	6,836.51	5,132.21

(II) Determination of the discount rate

According to the principle of consistent basis for the income amount and the discount rate, the basis to determine the income amount for this valuation is the amount of free cash flow of the enterprise and the weighted average cost of capital (WACC) is chosen as the discount rate.

Formula:
$$WACC = K_e \times \frac{E}{D+E} + K_d \times \frac{D}{D+E} \times (1-T)$$

In the formula: K_e : Cost of equity capital;

K_d : Cost of debt capital;

E: Equity capital;

D: Debt capital;

D+E: Investment capital;

T: Income tax rate.

LETTER FROM THE BOARD

Where: $K_e = R_f + \beta \times \text{MRP} + R_c$

R_f : Risk-free rate of return;

β : Risk coefficient of enterprise;

MRP: Market risk premium;

R_c : Enterprise-specific risk adjustment coefficient.

1. *Determination of the cost of equity capital K_e*

Calculation of the cost of equity capital K_e is made by using Capital and Asset Pricing Model (CAPM).

(1) *Determination of risk-free rate of return R_f*

We adopted the Yield to Maturate Rate of national debts as the risk-free rate of return R_f . We selected the national debts, of which the period is 10 years from its maturity date to the valuation benchmark date, taken the average of its Yield to Maturate Rate as the average yield, which in turn taken as the risk-free rate of return R_f . Through referring to Wind Information and calculating the average yield of the national debts with 10 years from the valuation benchmark date, we obtained the result of 3.28%.

(2) *Risk coefficient of enterprise β*

The risk coefficient of enterprise β is calculated according to β of the similar companies listed on Shanghai and Shenzhen A-share stock markets inquired by Wind Information, and the specific determination process and calculation results of Beta are as follows:

Stock code	Stock name	Aggregate market value <i>Unit RMB0'000</i>	Interest- bearing debts <i>Unit RMB0'000</i>	Year-end income tax rate%	BETA	Blum		D/E
						β_u	adjustment	
000012. SZ	CSG A	2,249,630.6690	415,023.7702	25.00	1.5772	1.2165	1.3848	0.1845
600586. SH	Jinjing Science & Technology	1,323,041.0200	179,286.3152	15.00	1.5771	1.2417	1.3847	0.1355
600660. SH	Fuyao Glass	11,441,298.8565	1,069,796.3672	25.00	0.9339	0.8933	0.9559	0.0935
601636. SH	Kibing Group	4,593,552.5912	280,562.9340	25.00	0.9520	0.9256	0.9680	0.0611
Average						1.0693		0.1186

LETTER FROM THE BOARD

- ① First, the levered Beta of the similar companies listed on Shanghai and Shenzhen A-share stock markets was inquired by Wind Information, then the unlevered Beta of each company was calculated according to the following formula, and then the average unlevered Beta of similar listed companies was calculated. The formula is as follows:

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

In the formula: β_L : Levered Beta;

β_U : Unlevered Beta;

- ② Determination of the appraised entity's capital structure ratio based on the comparable companies' average capital structure
- ③ Estimation on the Beta under the determined target capital structure ratio aforementioned of the appraised entity

Beta of the appraised entity is calculated by substituting the determined capital structure ratio of the appraised entity to the following formula:

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

In the formula: D/E : the target capital structure determined by the appraised entity;

T : applicable income tax rate of the appraised entity;

$$\beta_L = 1.1644$$

(3) *Determination of market risk premium (MRP)*

Market risk premium (MRP) is the portion of the expected return of a market portfolio or a stock portfolio with market-average risk over the return of risk-free assets. When calculating the MRP of the Chinese market, we selected the constituent stocks of the Shanghai and Shenzhen 300 Index, checked the post-recovery closing prices of the constituent stocks in each year through Wind Information, calculated the geometric average return rate of the constituent stocks in each year, eliminated abnormal data by 95% confidence interval, and finally carried out the arithmetic mean of the data after eliminating the above abnormality. As calculated, the market risk premium (MRP) is 7.39%.

LETTER FROM THE BOARD

(4) *Enterprise-specific risk adjustment coefficient R_e*

As companies selected for the calculation of the risk coefficient are listed companies, compared with the comparable listed companies, the entity is an unlisted company and the excess returns arising from the company's specific risks should be taken into account. Specifically, the appraised entity has a small business scale and is subject to certain operational risks, and other specific risks exist in addition to excess returns on scale, such as the enterprise's future annual earnings will be affected by policy factors to a greater extent relatively. The company-specific risk adjustment factor was determined to be 2% after comprehensive analysis.

(5) *Determination of the cost of equity capital K_e*

Pursuant to the parameters as determined above, the calculation formula of cost of equity capital is as follows:

$$\begin{aligned} K_e &= R_f + \beta \times \text{MRP} + R_e \\ &= 3.28\% + 1.1644 \times 7.39\% + 2\% \\ &= 13.89\% \end{aligned}$$

2. *The cost of debt capital (K_d)*

The cost of debt capital K_d is in fact the expected rate of return on debt investment of the appraised entity, which is the rate of return on investment that a debt investor would expect to receive on its investment in the appraised entity. Since only some large enterprises or national key projects can be approved to issue enterprise bonds or corporate bonds in China at present, it is difficult to find a return on bond investment similar to that of the appraised entity.

Consistent with the forecast data, our financial cost is confirmed with reference to the future forecast interest rate, so this evaluation takes the enterprise's forecast loan interest rate as the cost of debt capital K_d .

3. *The calculation of WACC*

Calculate the company's future capital structure D/E based on reference to comparable companies; K_d takes the bank loan interest rate of 4.65% over five years.

$$\begin{aligned} \text{WACC} &= K_e \times E / (D + E) + K_d \times D / (D + E) \times (1 - T) \\ &= 13.89\% \times 89.39\% + 4.65\% \times 10.61\% \times (1 - 25\%) \\ &= 12.78\% \end{aligned}$$

LETTER FROM THE BOARD

(III) The determination of free cash flow discount value of the enterprise

Based on the above-mentioned calculation of free cash flow and discount rate of the enterprise, the free cash flow discount value of the enterprise is obtained.

(IV) Interest-bearing debts

Interest-bearing debts refer to the debts that are interest-bearing on the book on the valuation benchmark date and generally comprise short-term borrowings, non-current liabilities due within one year, long-term borrowings, etc., with the verified book value as the appraisal value of the interest-bearing debts. The appraisal interest-bearing debts are short-term borrowings and non-current liabilities due within one year. The details are listed in the table below:

Total interest-bearing debts (yuan)	129,077,086.77
Short-term borrowings	10,000,000.00
Non-current liabilities due within one year	119,077,086.77

(V) Surplus assets

The verified surplus assets are surplus monetary funds, which are determined as the balance by deducting the minimum retained amount of monetary funds from the monetary funds on the valuation benchmark date.

For the forecast of minimum retained amount of monetary funds, divide the cash-pay cost (operating cost, tax and surcharge, administration expenses, selling expenses and other expenses excluding depreciation and amortization) by the turnover rate. As the payment period for each of the cash-pay costs of the company is one quarter after its operation becomes stable, it is determined the cash-pay cost for one quarter is taken as the normal retained amount of the monetary funds.

As calculated, the surplus assets of the Company is RMB19,742,293.63.

LETTER FROM THE BOARD

(VI) Non-operating assets

Non-operating assets represent assets that have no direct link to the income from the operating activities of the enterprise and the value of which is not included in the free cash flow discount value of the enterprise. That kind of assets do not generate profits, which increase asset size and reduce corporate profit margin. The non-operating assets evaluated in the appraisal are the prepayment not directly related to the income from operating activities, other receivables and other current assets, other non-current assets, fixed assets, projects under construction and intangible assets. Cost approach is adopted for the valuation, and the appraisal value of the non-operating assets is RMB239,812,267.73. The non-operating assets are listed in the table below:

Non-operating assets (yuan)	239,812,267.73
Prepayment	85,859.16
Other receivables	1,324,309.83
Fixed assets	29,074,866.82
Projects under construction	24,536,092.96
Intangible assets	114,791,138.96
Other non-current assets	70,000,000.00

(VII) Non-operating liabilities

Non-operating liabilities represent liabilities that have no direct link to the income generated from operating activities of the enterprise and the value of which is not included in the free cash flow discount value of the enterprise. The non-operating liabilities in the appraisal are other current liabilities, payables that are not directly related to the income from operating activities, other payables and deferred income. Cost approach is adopted for the valuation, and the appraisal value of the non-operating liabilities is RMB31,347,050.24.

Non-operating liabilities (yuan)	31,347,050.24
Payables	523,893.81
Non-operating other payables	12,210,662.17
Deferred income	18,612,494.26

LETTER FROM THE BOARD

(VIII) The value of the entire equity interest of the shareholders

As calculated, the value of the entire equity interest of the shareholders = free cash flow discount value of the enterprise + value of non-operating assets + surplus assets – non-operating liabilities – interest-bearing debts = RMB408.7777 million.

Details of the above results are set out in the following table:

Monetary Unit: RMB0'000

Item	2022	2023	2024	2025	2026	Perpetual period
Free cash flow of the enterprise	5,402.63	-9,852.05	3,145.57	6,746.07	6,836.51	5,132.21
Discount rate	12.78%	12.78%	12.78%	12.78%	12.78%	12.78%
Discount period (year)	0.50	1.50	2.50	3.50	4.50	
Discount factor	0.9416	0.8349	0.7403	0.6564	0.5820	4.5531
Present value	5,087.11	-8,225.48	2,328.67	4,428.12	3,978.85	23,367.45
Total present value of free cash flow of the enterprise						30,964.72
Add: Non-operating assets and other assets						23,981.23
Less: Non-operating liabilities						3,134.71
Add: Surplus assets						1,974.23
Less: Interest-bearing debts						12,907.71
The value of the entire equity interest of the shareholders						40,877.77

LETTER FROM THE BOARD

Information on the Parties to the North Glass Share Transfer Agreement and the Target Company

The Company

The principal activities of the Company are production and sales of new energy glass. The scope of business includes development, production, manufacture and installation of new energy glass, photoelectric material for functional-glass category and its processed products and components, relevant materials, mechanical equipment and its electric appliances and accessories, relevant technical consultancy and technical services, as well as sales and after-sales services of self-produced products.

Yaohua Group

Yaohua Group is a subsidiary controlled by Triumph Group which is an indirect controlling shareholder (as defined under the Listing Rules) of the Company. Yaohua Group is a company incorporated in the PRC with limited liability, which is principally engaged in the sales and warehousing of glass and glass products, relevant mineral products and chemical products (excluding hazardous chemicals, precursor chemicals and monitored and controlled chemicals); import and export business (excluding goods that are subject to the state-run trade administration, application shall be made in accordance with the relevant state requirements for the import and export of goods that are subject to quotas and license); technical consultation and technical services related to the company. As of the Latest Practicable Date, the ultimate beneficial owner of Yaohua Group is CNBMG. CNBMG is a wholly state-owned enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company, and is a comprehensive building materials industry group.

Information on the Target Company

North Glass is a company incorporated in the PRC with limited liability. Its scope of business mainly covers production and sale of glass and glass products, refractory materials and ceramic products; import and export of goods and technologies; stevedoring services. Yaohua Group acquired 100% equity interest in North Glass in 2011 at the consideration of RMB322,269,875.12. On 21 July 2021, the Company passed a resolution at the third extraordinary general meeting 2021 in relation to the acquisition of 60% equity interest in Qinhuangdao North Glass Co., Ltd. by the Company and the transaction contemplated thereunder at the consideration of RMB182,275,920 (equivalent to approximately HK\$218,731,104), which was considered and approved by the Independent Shareholders. According to the announcement dated 5 August 2021 in relation to the completion of change in industrial and commercial registration of Qinhuangdao North Glass Co., Ltd., the transfer of the equity interest and the industrial and commercial registration changes in relation to the acquisition have been completed on 4 August 2021, and accordingly the Company became the legal owner of 60% equity interest in North Glass, and the percentage of equity interest held by Yaohua Group in North Glass changed from 100% to 40%. Up to the Latest Practicable Date, the Company still holds 60% equity interest in North Glass and Yaohua Group holds 40% equity interest in North Glass. Upon completion of the Acquisition, the Company will hold 100% equity interest in North Glass and Yaohua Group will cease to hold equity interest in North Glass.

LETTER FROM THE BOARD

Financial Information on the Target Company

The audited financial information of North Glass for the financial years ended 31 December 2020 and 31 December 2021 is set out below:

	For the financial year ended 31 December (RMB)		January-September
	2020	2021	2022 (unaudited)
Operating income	485,549,082.70	465,912,433.35	246,912,600
Net profit before taxation	73,186,651.53	126,120,648.50	23,139,700
Net profit after taxation	73,186,651.53	126,120,648.50	23,112,000
Total assets	932,820,892.87	558,383,521.13	515,826,000
Net assets	201,753,661.92	327,874,310.42	350,986,300

Products of North Glass are glass products with float technology. Since 2021, particularly in the fourth quarter, the pace of completion in the real estate market has slowed down, resulting in a weak demand for glass and continuous decline in prices. Meanwhile, the costs of major raw materials and fuels, such as sodium carbonate and natural gas, of the upstream of the glass industry are still soaring at high levels. The combination of these two factors has led to a year-on-year decline in operating results and net profit in 2022. However, in order to support the steady and healthy development of the real estate market, the China Securities Regulatory Commission (CSRC) has recently decided to adjust and optimize five measures in equity financing, which will help reverse the downward risks in the real estate market and stabilize the real estate industry's support to the macro-economic market. It is expected that in 2023, with the continuous improvement and optimization of pandemic prevention and control measures, the implementation of proactive fiscal policy and prudent monetary policy by the State, and the strengthening of coordination and synergy among various policies, the Company is of the view that the market conditions will recuperate.

In addition, according to the provisions of Article 32 of the "Measures for the Supervision and Administration of State-owned Assets Transactions of Enterprises" 《企業國有資產交易監督管理辦法》, in the event where the property rights of enterprises are transferred by way of non-public agreement transfer, the transfer price shall not be lower than the results as approved by and filed with the competent state-owned assets institution. For this transaction, the Company and Yaohua Group have completed the corresponding filing procedures for state-owned assets evaluation projects, and the transaction has been approved by the competent state-owned assets institution.

LETTER FROM THE BOARD

As of the end of the third quarter of 2022, the net profit of North Glass has declined compared with the same period of the previous year, mainly because the prices of raw material continuously fluctuate at high levels and the market demand was being affected by periodic uncertain factors such as the pandemic situation and also the downturn in real estate. Despite the sales price of the products showed a downward trend in general, the Company still managed to remain in a profitable state which showed its strong market competitiveness. As of 30 September, 2022, the net assets of North Glass was RMB350,986,300, which was still significantly higher than the audited net assets of RMB327,874,300 on the valuation benchmark date (ie., 31 December, 2021).

Following the adoption of the cost method (asset-based method), the appraised value of the net assets of North Glass was RMB81.7962 million higher compared with the book value, and the appreciation rate was 24.95%. The appreciation rate is not significant and is reasonable. The appreciation can mainly be reflected in the current assets, fixed assets, and intangible assets (land use rights). Among them, the appreciation rate of current assets is 7.90%, the appreciation rate of fixed assets is 22.55%, and the appreciation rate of intangible assets is 31.91%. The overall evaluation results are relatively objective and cautious.

The Company is already holding 60% equity interest in North Glass, and the transaction consideration for this acquisition of the remaining 40% equity interest in North Glass held by Yaohua Group is determined based on the appraisal results obtained by the Asset Valuer through professional estimation of various book assets of North Glass as at 31 December 2021 under the cost approach. This transaction has been recognized by both parties. The Company is of the view that the consideration is reasonable. The conditions for the equity transfer in North Glass are in compliance with the fairness principle, whilst the acquisition is conducive to the development and improvement of the business of the Company.

Reasons for and Benefit of the Acquisition

Upon completion of the transaction, North Glass will become a wholly-owned subsidiary of the Company, which will be conducive to improving its decision-making efficiency with regards to its operation and expediting the construction progress of solar photovoltaic cell packaging material project of North Glass. At the same time, the share acquisition will also help the Company to streamline its business structure, clarify its business scope, adjust its product structure and highlight its main business advantages; which is in line with the long-term strategic positioning and the interests of the Shareholders of the Company as a whole.

There will be no change in the scope of the consolidated statements of the Company before and after the transaction. The connected transaction will not compromise the interests of the Company and Shareholders and will not have any adverse impact on the financial position or operating results of Company.

The terms of Share Transfer Agreement have been determined after the arm's length negotiations between the parties thereto. The Directors consider that the terms of the Share Transfer Agreement are on normal commercial terms, fair and reasonable and in the interest of the Group and the Shareholders as a whole.

LETTER FROM THE BOARD

Listing Rules Implications

As at the Latest Practicable Date, Yaohua Group is a subsidiary controlled by Triumph Group which is an indirect controlling shareholder (as defined under the Listing Rules) of the Company. Therefore, Yaohua Group is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. The transaction contemplated under the Share Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 5% but lower than 25%, the Acquisition constitutes a discloseable and connected transaction of the Company under the Listing Rules, and thus is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

Mr. Xie Jun, Mr. Ma Yan and Mr. Liu Yuquan, the executive Directors, and Mr. Zhang Chong, the non-executive Director of the Company, have abstained from voting in respect of the approval of the Share Transfer Agreement and the transactions contemplated thereunder in the Board meeting due to the fact that they are connected with Triumph Group and are not regarded as independent to make any recommendation to the Board.

The Third EGM will be held by the Company for the Independent Shareholders to consider and, if thought fit, approve, among other things, the North Glass Share Transfer Agreement and the transaction contemplated thereunder. At the EGM, voting on the proposed resolution will be conducted by way of poll.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder who has a material interest in the transaction shall abstain from voting on the resolution. Since Triumph Group is the controlling shareholder of Yaohua Group, according to the Listing Rules, Triumph Group and its associates are interested in the Acquisition. Therefore, Triumph Group (the controlling shareholder of Yaohua Group) and its associates, which held or are entitled to exercise control over the voting rights in respect of 204,932,781 A Shares of the Company, accounting for approximately 31.74% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting on the resolution on the Acquisition at the Third EGM. Save as disclosed above, as at the Latest Practicable Date, to the best of the Directors' knowledge, no other Shareholders are required to abstain from voting on the resolution on the Acquisition at the EGM.

Independent Board Committee

The Independent Board Committee has been formed by the Company to provide recommendation to the Independent Shareholders in respect of the Share Transfer Agreement and the transaction contemplated thereunder. The Company has appointed Gram Capital to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

Completion is subject to and conditional upon the fulfillment of the terms and conditions precedent set out in the Share Transfer Agreement and the Acquisition may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

III. DISCLOSEABLE AND CONNECTED TRANSACTION ON DISPOSAL OF 100% EQUITY INTEREST OF A SUBSIDIARY

On 23 November 2022, the Company entered into a Share Transfer Agreement with Yaohua Group (a subsidiary controlled by Triumph Group, an indirect controlling shareholder of the Company). Accordingly, the Company has agreed to dispose of and Yaohua Group has agreed to acquire 100% equity interest in Puyang CNBM Photovoltaic Materials at a consideration of RMB326,885,000 (equivalent to approximately HK\$353,035,800) in cash. After the completion, Puyang CNBM Photovoltaic Materials will cease to be a subsidiary of the Company and the Company will cease to hold any interest in Puyang CNBM Photovoltaic Materials. Therefore, the financial results of Puyang CNBM Photovoltaic Materials will cease to be consolidated into the financial statements of the Company.

Puyang CNBM Photovoltaic Materials Share Transfer Agreement

Set out below are the principal terms of the Puyang CNBM Photovoltaic Materials Share Transfer Agreement in respect of the Disposal:

Date: 23 November 2022

Parties: (1) The Company (as transferor); and

(2) Triumph Group (as the transferee)

Assets to be Acquired or Disposed of

Pursuant to the Share Transfer Agreement, the Company has agreed to dispose of and Yaohua Group has agreed to acquire 100% equity interest in Puyang CNBM Photovoltaic Materials.

Consideration

The Share Transfer Price of the Target Company was determined after arm's length negotiations between the Company and Yaohua Group on normal commercial terms, with reference to, among others, the assets appraisal report of Puyang CNBM Photovoltaic Materials determining the appraisal value of the entire equity interest attributable to the shareholders of Puyang CNBM Photovoltaic Materials prepared by Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd. (中京民信(北京)資產評估有限公司), an independent asset appraiser, based on the appraisal results of the cost method (asset-based method) as the appraisal conclusion. Accordingly, the appraisal value of the entire equity interest attributable to the shareholders of Puyang CNBM Photovoltaic Materials as of 31 December 2021 was approximately RMB326,885,000 (equivalent to approximately HK\$353,035,800).

LETTER FROM THE BOARD

Based on the aforementioned valuation results, it is determined that the transfer price of Target Equity Interest in Puyang CNBM Photovoltaic Materials is RMB326,885,000 (equivalent to approximately HK\$353,035,800) (“**Share Transfer Price**”). Yaohua Group shall pay the Share Transfer Price to the Company in the following ways:

- The first installment: Yaohua Group shall pay 10% of the Share Transfer Price to the Company within 15 working days from the effective date of the Share Transfer Agreement. Within 7 working days after the payment by Yaohua Group, the Company shall transfer its 100% equity interest in Puyang CNBM Photovoltaic Materials to Yaohua Group (such date will be designated as the Registration Completion Date).
- The second installment: Yaohua Group shall pay 40% of the Share Transfer Price to the Company before 31 December 2022. After this payment, the accumulated payment shall be 50% of the Share Transfer Price.
- The third installment: Yaohua Group shall pay the remaining Share Transfer Price to the Company before 30 June 2023.

The consideration was reached based on normal commercial terms after arm’s length negotiations between Yaohua Group and the Company, with reference to the fair value of the Target Company.

The main considerations of the Board for selecting 31 December 2021 as the Valuation Benchmark Date for the financial information of Puyang CNBM Photovoltaic Materials, the Target Company, are: 31 December 2020 is the timing for conducting the audit of the financial year, which allows the use of the Target Companies’ annual audit report and is more efficient for moving forward the project of the Disposal; furthermore, the Board believes that the operating conditions of the Target Companies have no material change from the Valuation Benchmark Date to the signing date of the Share Transfer Agreement (the details of the financial information of Puyang CNBM Photovoltaic Materials are set out in the circular under the heading of “About the Financial Information on the Target Company Puyang CNBM Photovoltaic Materials”). Based on the analysis of the above factors, the Board is of the view that there has been no significant change in the operating conditions of the Target Companies of this Disposal from the Valuation Benchmark Date to the signing date of the Share Transfer Agreement. At the same time, according to the relevant provisions of the Share Transfer Agreement, the profits and losses incurred by Puyang CNBM Photovoltaic Materials realized after the Audit Valuation Reference Date shall be borne or enjoyed by Puyang CNBM Photovoltaic Materials, and shall be indirectly borne or enjoyed by Yaohua Group from the Valuation Benchmark Date to the Completion date of the Share Transfer. Therefore, the valuation results with 31 December 2021 as the Valuation Benchmark Date are adopted as one of the pricing bases, which is determined on an arm’s length basis for transactions between both parties, and the pricing basis is fair and reasonable.

LETTER FROM THE BOARD

Handover and Profit and Loss during the Period

The Handover Completion Date for the Share Transfer of the Target Company will be designated as the end of the preceding month or the end of the month (to be determined by Yaohua Group and the Company through negotiation) of the Registration Completion Date of such enterprise (the “**Handover Completion Date**”). Since the Registration Completion Date, Yaohua Group and its authorized persons will be entitled to take over Puyang CNBM Photovoltaic Materials, and be entitled to carry out production and operation activities or other disposals through Puyang CNBM Photovoltaic Materials as the shareholder. At the same time, the Company and Yaohua Group will appoint an audit institution to audit the financial position of Puyang CNBM Photovoltaic Materials for the period from 31 December 2021 to the Handover Completion Date and issue an audit report accordingly. Upon the completion of the relevant handover matters, the Company, Yaohua Group and Puyang CNBM Photovoltaic Materials will jointly sign a handover agreement.

The profits and losses realized by Puyang CNBM Photovoltaic Materials after the audit and valuation benchmark date shall be borne or enjoyed by Puyang CNBM Photovoltaic Materials and indirectly borne or enjoyed by Yaohua Group.

Conditions Precedent for the Puyang CNBM Photovoltaic Materials Share Transfer Agreement to Take Effect

The Puyang CNBM Photovoltaic Materials Share Transfer Agreement shall become effective from the date on which all the following conditions have been satisfied:

- (1) the agreement has been signed by the legal representatives of the Company and Yaohua Group or their respective authorized representative(s), with company seals of both parties affixed thereon;
- (2) the Share Transfer as contemplated under the agreement has been approved at the general meeting of the Company;
- (3) the Share Transfer as contemplated under the agreement has been approved by the competent authority of Yaohua Group; and
- (4) the Share Transfer contemplated under the agreement has been approved by CNBMG or its authorized body.

LETTER FROM THE BOARD

The basis for adopting the valuation results of the cost approach (asset-based approach) to be the conclusion of the valuation of Puyang CNBM Photovoltaic Materials

Based on the Asset Valuer's opinion, the consideration of adopting the results of the cost approach by the Asset Valuer for Puyang CNBM Photovoltaic Materials, and the consideration of alternative valuation methods are as follows:

The cost approach in the enterprise value evaluation refers to the valuation method whereby the value of the valuation target is determined by valuation of identifiable on- and off-balance sheet assets and liabilities based on the balance sheet of the appraised entity as of the valuation benchmark date. As the assets of Puyang CNBM Photovoltaic Materials are in a state of continuous use or are assumed to be in a state of continuous use, and historical data is available, the conditions for cost approach in relation to Puyang CNBM Photovoltaic Materials are met. Moreover, the use of cost approach can meet the requirements of the value type of the evaluation. For the above reasons, the Asset Valuer has adopted the cost approach as one of the valuation methods for the valuation of Puyang CNBM Photovoltaic Materials.

The Asset Valuer adopted both the cost approach and the income approach for the valuation, and the valuation results of the cost approach was adopted as the final valuation results of the valuation. The main considerations are (i) the insignificant difference between the valuation results of the income approach and the cost approach of RMB1,302,800, with a difference of only 0.40%. The overall income of Puyang CNBM Photovoltaic Materials basically matches with the scale of its assets, so the value of the relevant assets formed by the investment can basically be realized. The evaluation of the income approach has taken into account various factors, such as domestic and external macroeconomic conditions, industry conditions, strategic adjustment measures, development planning and operating ability of the management. Based on the analysis of the income approach valuation process and valuation results, the projection of enterprise revenue and profit made in the income approach valuation is subject to the relevant information obtained and the relevant circumstances, and it is not certain that such possibility has been adequately considered; (ii) the major long-term assets of Puyang CNBM Photovoltaic Materials are buildings (structures), equipment and intangible assets. The Asset Valuer has fully considered the factors affecting the value of the relevant assets in the valuation of the relevant assets, replaced the historical cost with the market value. The valuation results of the cost approach are reached through summing up and estimating the value of each of the assets which make up the enterprise from the perspective of the cost of the assets; (iii) upon comprehensive comparison and analysis, the Asset Valuer is of the view that the valuation results of the cost approach can more reasonably reflect the value of the entire equity interest of Puyang CNBM Photovoltaic Materials. Therefore, the valuation results of the cost approach was adopted as the final valuation results.

Profit Forecast for the Valuation Approach of Puyang CNBM Photovoltaic Materials

In the process of reaching valuation conclusions of the equity interests of Puyang CNBM Photovoltaic Materials, its intangible assets are appraised by income approach in their asset valuation reports. Accordingly, the valuation based on income approach is deemed as a profit forecast under Rule 14.61 of the Listing Rules. Therefore, the Company discloses the following valuation details pursuant to Rule 14.62 of the Listing Rules.

LETTER FROM THE BOARD

Details of the principal assumptions upon which the Asset Valuation Report of Puyang CNBM Photovoltaic Materials were based are as follows:

(I) Basic Assumptions

1. *Transaction assumption*

Transaction assumption assumes that all assets to be valued are in the process of transaction, and the valuer will conduct the valuation with reference to a simulated market based on the transaction conditions of assets to be valued. The transaction assumption is a fundamental prerequisite for the further implementation of the asset valuation.

2. *Open market assumption*

Open market assumption assumes that with respect to the asset traded or to be traded in the market, the transaction parties are equal and have opportunity and time to access enough market information so as to make a rational judgment on the function, intended purpose and transaction price of the assets. The open market assumption is made on the basis that the assets are available for trading openly in the market.

3. *Assumption on continuing operation*

Assumption on continuing operation of asset is based on the assumption that the appraised enterprise continues to operate in accordance with its original business purpose and operating methods after the valuation benchmark date.

(II) General Assumptions

1. It is assumed that there are no material changes in the relevant existing laws, regulations and policies, and macroeconomic conditions of the PRC as well as in the local political, economic and social environment of such places where the parties to the transaction are operating after the valuation benchmark date;
2. It is assumed that the person operating the appraised entity under valuation is accountable, and the management is capable of performing their duties after the valuation benchmark date;
3. It is assumed that the appraised entity has fully complied with all relevant laws and regulations;
4. It is assumed that the interest rate, exchange rate, tax base, tax rate, policy-imposed charges and others related to the appraised entity will not change significantly after the valuation benchmark date;

LETTER FROM THE BOARD

5. It is assumed that there are no other human force majeure and unforeseen factors that have a significant adverse impact on the enterprise after the valuation benchmark date.

(III) Specific Assumptions

1. It is assumed that the accounting policies to be adopted by the appraised entity after the valuation benchmark date are basically consistent with the accounting policies adopted when the valuation report is prepared in respect of significant aspects;
2. It is assumed that the business scope and method of the appraised entity will remain consistent with the current directions after the valuation benchmark date with its existing management method and management level;
3. The appraised entity does not change its operation mode, its future operation mode is basically stable, and its prediction of future earnings can be realized;
4. It is assumed that the cash inflow and cash outflow of the appraised entity after the valuation benchmark date are even;
5. This valuation assumes that the basic information and financial information provided by the client and the appraised enterprise are true, accurate, and complete;
6. The appraised entity will still be identified as a high-tech enterprise and enjoys the relevant preferential tax upon the due of the qualification certification of high-tech enterprise in the coming year.

The Board has reviewed the principal assumptions upon which the profit forecasts were based and is of the view that the profit forecasts were made after careful consideration and enquiry.

Grant Thornton LLP (Special General Partnership) has been engaged by the Company to review the calculation and compilation of the discounted future cash flows upon which the asset valuation report of Puyang CNBM Photovoltaic Materials was based.

A report from Grant Thornton LLP (Special General Partnership) and a letter from the Board are included in Appendix IV and Appendix V to this circular respectively for the purpose of Rule 14.62 of the Listing Rules.

The calculation process and key parameters of the Asset Valuer's valuation using the income approach are as follows:

Value of all shareholders' equity = discounted value of free cash flow of the enterprise + value of non-operating assets – non-operating liabilities + value of surplus assets – interest-bearing debt

LETTER FROM THE BOARD

The results of the free cash flow forecasts for Puyang CNBM Photovoltaic Materials are shown in the table below:

Unit: RMB0'000

Item	2022	2023	2024	2025	2026	After 2026
Operating income	37,113.35	37,842.53	38,571.71	38,814.77	39,106.44	37,603.77
Less: Operating cost	28,095.27	28,323.11	28,554.84	28,645.79	28,751.72	27,665.97
Tax and surcharge	621.38	551.59	637.11	639.73	642.87	642.87
Sales expense	43.96	44.97	45.99	46.46	47.01	47.01
Management expense	931.88	952.04	971.30	984.39	996.46	996.46
R&D expense	1,989.66	2,034.75	2,080.52	2,103.85	2,129.03	2,129.03
Finance expense	1,475.83	1,475.83	1,475.83	1,475.83	1,475.83	1,475.83
Add: Other gains	0.00	0.00	0.00	0.00	0.00	0.00
Operating profit	3,955.37	4,460.23	4,806.13	4,918.71	5,063.52	4,646.59
Add: Non-operating income	0.00	0.00	0.00	0.00	0.00	0.00
Less: Non-operating expense	0.00	0.00	0.00	0.00	0.00	0.00
Total profit	3,955.37	4,460.23	4,806.13	4,918.71	5,063.52	4,646.59
Less: Income tax expense	94.18	363.82	408.84	422.23	440.17	440.17
Net profit	3,861.19	4,096.41	4,397.28	4,496.48	4,623.34	4,206.42
Add: Depreciation and amortization	3,454.45	3,456.98	3,456.98	3,456.98	3,456.98	3,462.43
Interest expenses after tax	1,254.46	1,254.46	1,254.46	1,254.46	1,254.46	1,254.46
Less: Capital expenditure	40.00	0.00	0.00	0.00	0.00	2,330.25
Change in working capital	25.12	218.66	218.66	72.89	87.46	87.46
Operating cash flow	8,504.98	8,589.19	8,890.06	9,135.03	9,247.32	6,505.60

LETTER FROM THE BOARD

Information on the Parties to the Puyang CNBM Photovoltaic Materials Share Transfer Agreement

The principal activities of the Company are production and sales of new energy glass. The scope of business includes development, production, manufacture and installation of new energy glass, photoelectric material for functional-glass category and its processed products and components, relevant materials, mechanical equipment and its electric appliances and accessories, together with relevant technical consultancy and technical services, as well as sales and after-sales services of self-produced products.

Yaohua Group is a subsidiary controlled by Triumph Group which is an indirect controlling shareholder (as defined under the Listing Rules) of the Company. Yaohua Group is a company incorporated in the PRC with limited liability, which is principally engaged in the sales and warehousing of glass and glass products, relevant mineral products and chemical products (excluding hazardous chemicals, precursor chemicals and monitored and controlled chemicals); import and export business (excluding goods that are subject to the state-run trade administration, application shall be made in accordance with the relevant state requirements for the import and export of goods that are subject to quotas and license); technical consultation and technical services related to the company. As at the Latest Practicable Date, the ultimate beneficial owner of Yaohua Group is CNBMG. CNBMG is a wholly state-owned enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company, and is a comprehensive building materials industry group.

Information on Puyang CNBM Photovoltaic Materials, the Target Company

Puyang CNBM Photovoltaic Materials is a company incorporated in the PRC with limited liability (solely owned by legal person invested or controlled by a non-natural person). Its scope of business mainly covers production, processing and sale of solar thermal power glass, electronic glass and electronic information display glass; the processing of glass and the relevant raw materials; technical consultation and service for float glass, solar thermal power glass and photoelectricity information display glass.

LETTER FROM THE BOARD

Set out below is the audited financial information of Puyang CNBM Photovoltaic Materials for the financial years ended 31 December 2020 and 31 December 2021:

	For the financial year ended		
	31 December		
	(RMB)		
			January-September
	2020	2021	2022
			(unaudited)
Operating income	96,121,361.06	311,575,441.28	232,699,400
Net profit before taxation	10,636,627.74	33,855,625.44	-26,310,200
Net profit after taxation	7,972,218.52	33,791,348.23	-26,640,400
Total assets	742,276,550.97	777,426,600	720,969,700
Net assets	247,203,582.97	280,994,900	254,354,500

Puyang CNBM Photovoltaic Materials currently has a 400t/d ultra-clear float glass production line. This production line has commenced trial production since the second half of 2020. It has shifted its production from ultra-clear glass to photothermal glass in late February 2022, and the research and development of 2mm photothermal glass products was successfully completed in April 2022. However due to large fluctuations in the market prices of raw materials which have been soaring at high levels continuously, the gross profit margin and profitability of the products of Puyang CNBM Photovoltaic Materials are affected to a certain extent.

The Disposal is conducted as a means to structure and adjust the business in combination with the Company's long term strategic positioning and future development direction, and at the same time, after a comprehensive assessment of the current main business and operating conditions of Puyang CNBM Photovoltaic Materials. There will be no impact on the development of the Company's main business of new energy materials.

The Asset Valuation Report of the Disposal adopts 31 December 2021 as the benchmark date, and its appraisal results are obtained by professional estimation of various book assets of Puyang CNBM Photovoltaic Materials as at 31 December 2021 under the cost approach, and the transaction consideration is determined accordingly. Pursuant to Clause 5.4 of the Share Transfer Agreement entered into between the Company and Yaohua Group, the profits and losses realized by Puyang CNBM Photovoltaic Materials after the audit and valuation benchmark date shall be borne or enjoyed by Puyang CNBM Photovoltaic Materials and indirectly borne or enjoyed by Yaohua Group, the transferee. Therefore, the profits and losses realized by Puyang CNBM Photovoltaic Materials after 31 December 2021 will not have an impact on the Company.

LETTER FROM THE BOARD

Financial Effects of the Disposal and Use of Proceeds

Upon Completion of the Disposal, the Company expects to realize a gain of approximately RMB39,190,100, which is the difference between the Share Transfer Price for disposal of 100% equity interest in the Target Company and the estimated net assets of the Target Company as at the day of Disposal. The actual gain or loss to be recorded by the Company as a result of the Disposal is subject to audit to be performed by the Company's auditors.

Upon completion of the Share Transfer, Puyang CNBM Photovoltaic Materials will cease to be a subsidiary of the Company and the results and assets and liabilities of Puyang CNBM Photovoltaic Materials will no longer be consolidated into the consolidated financial statements of the Group. Proceeds of the Share Transfer are intended for general working capital purposes of the Group.

Reasons for and Benefit of the Disposal

This transaction is a business structuring and adjustment made after the comprehensive assessment of the current main business and operation of Puyang CNBM Photovoltaic Materials, also taking into account the Company's long-term strategic and future development direction. The transaction helps to further clarify the business scope and product structure of the Company, concentrate on premium resources, strengthen and refine the main business, and continuously improve the profitability and income quality. Puyang CNBM Photovoltaic Materials is mainly engaged in the research and development, production and sales of ultra-white solar thermal materials, business structure and product positioning of which are relatively independent. Its operating revenue accounts for a relatively small proportion of the Company's overall operating revenue. The disposal of equity interest in Puyang CNBM Photovoltaic Materials will not impose significant changes on the Company's main business income composition and will not affect the development of the Company's business pillar of new energy materials.

There is no mutual guarantee, management entrustment arrangement or occupation of funds between the Company and Puyang CNBM Photovoltaic Materials. The connected transaction will not compromise the interests of the Company and Shareholders and will not adversely affect the financial position and operation results of the Company. The proceeds from the disposal of equity interest in Puyang CNBM Photovoltaic Materials will be used to invest in the Company's core businesses.

After the completion of the share transfer of Puyang CNBM Photovoltaic Materials, Puyang CNBM Photovoltaic Materials will no longer be consolidated into the Company's financial statements. The terms of Share Transfer Agreement have been determined after the arm's length negotiations between the parties thereto. Therefore, the Directors consider that the terms of the Sale and Purchase Agreement and the transaction contemplated thereunder are fair, reasonable and on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Listing Rules Implications

As one or more of the applicable percentage ratios set out in the Listing Rules in respect of the transaction under the Share Transfer Agreement is/are more than 5% but less than 25%, the disposal of 100% equity interest of Puyang CNBM Photovoltaic Materials constitutes a discloseable transaction under Chapter 14 of the Listing Rules.

The purchaser Yaohua Group is a subsidiary controlled by Triumph Group, whereas Triumph Group is an indirect controlling shareholder of the Company and is indirectly holding interest of 204,932,781 shares (representing approximately 31.74% of the issued share capital of the Company) as at the Latest Practicable Date. Therefore, Yaohua Group is a connected person of the Company. As such, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Disposal is/are more than 5%, the Disposal is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The transaction is subject to the approval of Independent Shareholders at the Third EGM by voting. Triumph Group and their respective associates shall abstain from voting on the Share Transfer Agreement and the transaction contemplated thereunder at the Third EGM.

Mr. Xie Jun, Mr. Ma Yan and Mr. Liu Yuquan, the executive Directors, and Mr. Zhang Chong, the non-executive Director of the Company, have abstained from voting in respect of the Share Transfer Agreement and the transactions contemplated thereunder in the Board meeting due to the fact that they are connected with CNBMG and are not regarded as independent to make any recommendation to the Board.

Independent Board Committee

The Company has set up an Independent Board Committee composed of all independent non-executive Directors (i.e. Ms. Zhang Yajuan, Mr. Fan Baoqun, Mr. Chen Qisuo and Mr. Zhao Hulin), to consider the terms of the Puyang CNBM Photovoltaic Materials Share Transfer Agreement and the transactions contemplated thereunder, and advise the Independent Shareholders on whether it is conducted in accordance with the normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. No member of the Independent Board Committee has any interest or participation in the transactions contemplated under the Share Transfer Agreement.

LETTER FROM THE BOARD

IV. PROPOSED CHANGE OF COMPANY NAME

Reference is made to the announcement of the Company date 23 November 2022 in relation to, among other things, proposed change of company name.

The Board proposes to change the Chinese name of the Company from “洛陽玻璃股份有限公司” to “凱盛新能源股份有限公司”, and the English name of the Company from “Luoyang Glass Company Limited” to “Triumph New Energy Company Limited”.

Reasons for the Change of Company Name

As highlighted in the Company’s 2022 Interim Report, in recent years, relying on the continuous and rapid development of photovoltaic industry in the People’s Republic of China, the Company has focused on the field of new energy materials, accelerated the optimization of regional layout, and successively established seven intelligent production bases in East China, Central China, North China and Southwest China. At the same time, the Company has divested and disposed of all the original information display glass sector-related businesses in the first half of 2022, so as to concentrate resources on the development of the core business of new energy materials. As a result of the Company’s insistence on innovation guidance to promote business transformation and upgrade, the Company is pleased to announce that it has taken the lead in the industry to realize the comprehensive transformation from traditional flat glass to information display glass and from information display glass to new energy materials.

In order to highlight the Company’s comprehensive transformation to the field of new energy materials and non-focus on the information display glass sector-related businesses, the Board believes that the proposed Change of Company Name would provide the Company with a more appropriate corporate image and identity, and better reflect the current status of the Company’s business and its direction of future development, which will benefit the future business development of the Company. The Board is therefore of the view that the proposed Change of Company Name is in the interests of the Company and the Shareholders as a whole.

Conditions of the Change of Company Name

The Change of Company Name is conditional upon:

- (a) the passing of a special resolution by the Shareholders at the Third EGM approving the Change of Company Name and the Amendments to the Articles of Association; and
- (b) the application for registration of change by the Company with the administrative authorities of the People’s Republic of China for industrial and commercial administration, taxation and other related matters, and the obtaining of approval for registration.

Subject to the satisfaction of the conditions set out above, the Company will carry out all necessary filing procedures with the Companies Registry in Hong Kong.

LETTER FROM THE BOARD

Effect of the Change of Company Name

The proposed Change of Company Name will not affect any rights of the Shareholders or the Company's daily business operation and its financial position (including the circumstances which may affect the share price of the Company and mislead investors).

All existing share certificates in issue bearing the Company's existing name shall continue to be evidence of legal title to the shares of the Company and valid for trading, settlement, registration and delivery purposes. Accordingly, there will not be any arrangement for exchange of existing share certificates for new share certificates bearing the new names of the Company. Once the proposed Change of Company Name becomes effective, share certificates of the Company will be issued in the new names of the Company and the shares of the Company will be traded on the main board of the Stock Exchange under the new names.

In addition, subject to confirmation by the Stock Exchange, the English and Chinese stock short names for trading in the securities of the Company on the Stock Exchange will also be changed upon the proposed Change of Company Name becomes effective and the filing procedures in Hong Kong have been completed.

V. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company date 23 November 2022 in relation to, among other things, proposed amendments to the Articles of Association.

The Board proposes to make corresponding amendments to the Articles in relation to the Change of Company Name. The Articles of Association and its amendments were written in Chinese, without formal English version. As such, the English translation shall be for reference only. In case of any discrepancies, the Chinese version shall prevail.

The resolution on the proposed amendments to the Articles of Association is subject to the approval of the Shareholders by way of a special resolution at the EGM, and will become effective upon the approval by the Shareholders at the EGM.

LETTER FROM THE BOARD

VI. CONSIDERATION AND APPROVAL OF ELECTION OF MR. SUN SHIZHONG AS NON-EXECUTIVE DIRECTOR OF THE TENTH SESSION OF THE BOARD

Reference is made to the announcement of the Company dated 27 October 2022. The Board has considered and passed the resolution in relation to the nomination of Mr. Sun Shizhong as a candidate for non-executive Director of the tenth session of the Board and the resolution is submitted to the EGM for consideration and approval.

In view of the resignation of Mr. Tao Ligang as the non-executive Director of the Company on 26 October 2022, Mr. Sun Shizhong (“**Mr. Sun**”) is recommended as a candidate for non-executive Director of the tenth session of the Board of the Company based on the nomination by Triumph Technology Group Co., Ltd.* (凱盛科技集團有限公司), the indirect controlling shareholder of the Company. Considering that Mr. Sun meets the qualifications for directorship, the Board considered and passed the resolution to nominate Mr. Sun as a candidate for non-executive Director at the seventh meeting of the tenth session of the Board held on 27 October 2022. Biographical details of Mr. Sun are set out as follows:

Mr. Sun Shizhong, aged 52, is a professorate senior engineer with university degree. Mr. Sun currently serves as the chief engineer of CNBM New Material Research Institute Group Co., Ltd.* (中建材玻璃新材料研究院集團有限公司) and the Party Branch secretary and general manager of China Triumph International Engineering Co., Ltd. Jiangsu Branch* (中國建材國際工程集團有限公司江蘇分公司). Mr. Sun also worked as an engineer in the thermal engineering institute and process institute of Bengbu Design & Research Institute for Glass Industry* (蚌埠玻璃工業設計研究院). Further, he was a senior engineer in the design department and a deputy general manager of Jiangsu Branch of China Triumph International Engineering Co., Ltd..

Mr. Sun did not hold any directorship in any other listed companies in the last three years.

Term of Service and Remuneration

The appointment of Mr. Sun is subject to the approval by the Shareholders of the Company at the general meeting, with a term from the date of consideration and approval at the general meeting until the expiry of the term of the tenth session of the Board. Mr. Sun, as a non-executive Director, will not receive any director’s emolument or remuneration from the Company.

Relationships

Save as disclosed above, Mr. Sun does not have any relationship with any other Directors, senior management or substantial shareholders or controlling shareholders (each as defined in the Listing Rules) of the Company and does not hold any position in the Company or its subsidiaries.

LETTER FROM THE BOARD

Interests in Shares

So far as the Board is aware, as at the Latest Practicable Date, Mr. Sun does not have or is not deemed to have any interest in any shares or underlying shares of the Company or its associated corporations within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong).

Matters That Need to be Brought to the Attention of the Shareholders

Save as disclosed above, so far as the Board is aware, there are no other matters or information relating to the appointment of Mr. Sun as a non-executive Director that need to be brought to the attention of the Shareholders of the Company or to be disclosed pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

The appointment of the above candidate for non-executive Director is subject to the approval by the Shareholders by adopting cumulative voting at the EGM. Ordinary resolutions in relation to the above proposed appointment of Mr. Sun Shizhong as a non-executive Director will be proposed to be approved by the Shareholders at the EGM.

VII. EGM

An EGM will be convened by the Company for the purposes of, among other things, seeking Independent Shareholders' approval for (1) Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement; (2) Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement; (3) Supplemental Agreement for Technical Services Framework Agreement; (4) the resolutions in relation to the Acquisition and the transactions contemplated thereunder; (5) the resolutions in relation to the Disposal and the transactions contemplated thereunder; (6) the proposed change of the Company name; (7) the proposed amendment to the Articles of Association; and (8) the election of Mr. Sun Shizhong as a non-executive Director of the tenth session of the Board. At the EGM, voting on the proposed resolutions will be conducted by way of poll.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder who has a material interest in the transaction shall abstain from voting on the resolution. Accordingly, CNBM and its associates are interested in the transactions contemplated under Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement, Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and Supplemental Agreement for Technical Services Framework Agreement, and will abstain from voting on the resolutions relating to each of the Continuing Connected Transactions Supplemental Agreements and their respective Proposed Annual Caps at the EGM.

LETTER FROM THE BOARD

Since Triumph Group is the controlling shareholder of Yaohua Group, according to the Listing Rules, Triumph Group and its associates are interested in the Acquisition and the Disposal. Therefore, Triumph Group (the controlling shareholder of Yaohua Group) and its associates, which held or are entitled to exercise control over the voting rights in respect of 204,932,781 A Shares of the Company, accounting for approximately 31.74% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting on the resolution on the Acquisition and the Disposal at the EGM. Save as disclosed above, as at the Latest Practicable Date, to the best of the Directors' knowledge, no other Shareholders are required to abstain from voting on the resolution on the Acquisition at the EGM.

A notice convening the EGM to be held at 9:00 a.m. on 30 December 2022 (Friday) at the conference room of the Company on 3rd Floor, No. 9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC is published by the Company on 13 December 2022 and is set out on pages EGM-1 to EGM-3 of this circular.

The forms of proxy for use at the EGM shall be dispatched on 13 December 2022 and published on the website of the Stock Exchange (<http://www.hkexnews.hk>). Whether or not you are able to attend the EGM in person, you are requested to complete and return the forms of proxy in accordance with the instructions printed thereon to the Company's H share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, or to the Company's registered address at No. 9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC as soon as possible and in any event not less than 24 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

VIII. RECOMMENDATIONS

The Directors (including the Independent Board Committee and excluding Mr. Xie Jun, Mr. Ma Yan, Mr. Liu Yuquan and Mr. Zhang Chong who are connected with the Triumph Group and have abstained from voting at the Board resolution on approving the 2022-2023 Supplemental Agreements) are of the view that the continuing connected transactions under the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement, Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and Supplemental Agreement for Technical Services Framework Agreement were conducted on normal commercial terms in the ordinary and usual course of business of the Group. The Directors (including the independent non-executive Directors) are also of the view that the terms of the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement, Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and Supplemental Agreement for Technical Services Framework Agreement, the transactions contemplated thereunder and the proposed annual cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, the Board recommended that the Independent Shareholders to vote in favour of the ordinary resolutions on the supplemental agreement and the proposed annual caps to be proposed at the EGM.

LETTER FROM THE BOARD

The Directors (including the Independent Board Committee and excluding Mr. Xie Jun, Mr. Ma Yan, Mr. Liu Yuquan and Mr. Zhang Chong who are connected with the Triumph Group and have abstained from voting at the Board resolution on approving the Acquisition) are of the view that although the Acquisition is not conducted in the ordinary and usual course of business of the Group, the Acquisition is carried out in accordance with normal commercial terms, the terms of North Glass Share Transfer Agreement (including the Acquisition) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, the Directors (including the Independent Board Committee) recommended that the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the Acquisition.

The Directors (including the Independent Board Committee and excluding Mr. Xie Jun, Mr. Ma Yan, Mr. Liu Yuquan and Mr. Zhang Chong who are connected with the Triumph Group and have abstained from voting at the Board resolution on approving the Disposal) are of the view that although the Disposal is not conducted in the ordinary and usual course of business of the Group, the terms of the Puyang CNBM Photovoltaic Materials Share Transfer Agreement is carried out in accordance with normal commercial terms, the terms of the Share Transfer Agreement (including the Disposal) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, the Directors (including the Independent Board Committee) recommended the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the Puyang CNBM Photovoltaic Materials Share Transfer Agreement and the transactions contemplated thereunder.

Furthermore, the Directors believe that the proposed (i) change of Company name; (ii) amendments to the Articles of Association; and (iii) election of Mr. Sun Shizhong as a non-executive Director of the tenth session of the Board are in the best interests of the Company and all its shareholders as a whole. Therefore, the Board recommends the Shareholders to vote in favour of (i) the special resolution on the change of Company name; (ii) the special resolution on the amendments to the Articles of Association; (iii) the ordinary resolution in relation to the election of Mr. Sun Shizhong as a non-executive Director of the tenth session of the Board to be proposed at the EGM.

IX. RESPONSIBILITY STATEMENT

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

LETTER FROM THE BOARD

X. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which are respectively set out on pages 72 to 74 and pages 75 to 110 of this circular. Additional information is also set out in the appendices to this circular and the notice of the EGM.

Yours faithfully,
By order of the Board
Luoyang Glass Company Limited*
Xie Jun
Chairman



洛阳玻璃股份有限公司

LUOYANG GLASS COMPANY LIMITED*

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

(Stock code: 01108)

Executive Directors:

Mr. Xie Jun

Mr. Ma Yan

Mr. Zhang Rong

Mr. Liu Yuquan

Ms. Wang Leilei

Registered and principal office:

No. 9 Tang Gong Zhong Lu

Xigong District

Luoyang Municipal

Henan Province

The PRC

Non-executive Directors:

Mr. Zhang Chong

Independent non-executive Directors:

Ms. Zhang Yajuan

Mr. Fan Baoqun

Mr. Chen Qisuo

Mr. Zhao Hulin

To the Independent Shareholders

Dear Sir or Madam,

**(1) REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS**

**(2) DISCLOSEABLE AND CONNECTED TRANSACTION ON
ACQUISITION OF REMAINING 40% EQUITY INTEREST IN QINHUANGDAO
NORTH GLASS CO., LTD.**

**(3) DISCLOSEABLE AND CONNECTED TRANSACTION ON DISPOSAL OF
100% EQUITY INTEREST OF PUYANG CHINA NATIONAL BUILDING
MATERIALS PHOTOVOLTAIC MATERIALS COMPANY LIMITED, A
SUBSIDIARY**

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We refer to the circular of the Company dated 13 December 2022 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you on whether the (1) Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement, Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and Supplemental Agreement for Technical Services Framework Agreement and the transactions contemplated thereunder and the annual caps; (2) Share Transfer Agreement for the acquisition of the remaining 40% equity interest in Qinhuangdao North Glass Co., Ltd. and the transactions contemplated thereunder; (3) Share Transfer Agreement for the disposal of the 100% equity interest in Puyang China National Building Material Photovoltaic Material Company Limited and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Details are set out in the Letter from the Board of the Circular. Gram Capital Limited has been appointed as an Independent Financial Adviser to provide recommendations to the Independent Board Committee and Independent Shareholders on such contents.

We wish to draw your attention to the (i) “Letter from the Board”; (ii) “Letter from Gram Capital” to the Independent Board Committee and the Independent Shareholders, containing their advice on the above terms; and (iii) other information set out in the appendices of the Circular.

Having considered the terms and conditions of the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement, Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement and Supplemental Agreement for Technical Services Framework Agreement and the transactions contemplated thereof and the respective Proposed Annual Caps, and having taken into account the opinion of the Independent Financial Adviser and, in particular, the factors, reasons and recommendations as set out in the “Letter from Gram Capital” on pages 75 to 110 of the Circular, we are of the opinion that the Supplemental Agreements were entered into in the ordinary and usual course of business of the Group, on normal commercial terms and that the terms of the Supplemental Agreements, the transactions contemplated thereof and the respective Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions concerning the same to be proposed at the EGM.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the North Glass Share Transfer Agreement, Puyang CNBM Photovoltaic Materials Share Transfer Agreement and the transactions (including the Acquisition and Disposal) contemplated thereunder, and taken into account the advice of Gram Capital, in particular the factors, reasons and recommendations set out in the “Letter from Gram Capital” on pages 75 to 110 of the Circular, we are of the view that although North Glass and Puyang CNBM Photovoltaic Materials Share Transfer Agreements are not entered into in the ordinary and usual course of business of the Group, the two transactions are entered into in accordance with the normal commercial terms, which are fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition and Disposal are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be submitted at the EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Ms. Zhang Yajuan Mr. Fan Baoquan Mr. Chen Qisuo Mr. Zhao Hulin

Independent Non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

13 December 2022

*To: The independent board committee and the independent shareholders of
Luoyang Glass Company Limited**

Dear Sir/Madam,

**(A) REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS;
(B) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO ACQUISITION OF REMAINING 40% EQUITY INTEREST
IN QINHUANGDAO NORTH GLASS CO., LTD.;
AND
(C) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO DISPOSAL OF 100% EQUITY INTEREST IN
PUYANG CNBM PHOTOVOLTAIC MATERIALS**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the proposed revision of annual caps under the Engineering Construction Equipment Procurement and Installation Framework Agreement (the “**Revision of Service Caps**”) and the proposed revision of annual caps under the Sale and Purchase of Raw Materials Framework Agreement (the “**Revision of Raw Materials Caps**”, and together with the Revision of Service Caps, the “**Proposed Revisions**”); (ii) the Acquisition; and (iii) the Disposal (together with the Proposed Revisions and the Acquisition, the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 13 December 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

LETTER FROM GRAM CAPITAL

THE PROPOSED REVISIONS

On 2 December 2020, the Company and CNBMG entered into the Engineering Construction Equipment Procurement and Installation Framework Agreement and the Sale and Purchase of Raw Materials Framework Agreement which are valid until 31 December 2023.

With reference to the Board Letter, the actual transaction amounts for 2022 and 2023 under the Engineering Construction Equipment Procurement and Installation Framework Agreement and the Sale and Purchase of Raw Materials Framework Agreement will exceed the existing annual caps amounts due to continuous expansion of the Group's production scale, successive commencement of operation and construction of ongoing and proposed projects and the continuous fluctuation of upstream bulk raw material prices at high levels. The Company therefore proposes to revise the existing annual caps to the Proposed Revised Annual Caps. Accordingly, the Company and CNBMG entered into the Relevant Supplemental Agreements (including the supplemental agreement for the Engineering Construction Equipment Procurement and Installation Framework Agreement (the **"Services Supplemental Agreement"**) and the supplemental agreement for the Sale and Purchase of Raw Materials Framework Agreement (the **"Raw Materials Supplemental Agreement"**)) on 23 November 2022.

THE ACQUISITION

As disclosed under the Company's circular dated 30 June 2021, the Company acquired 60% equity interest in North Glass (completion of relevant change in industrial and commercial registration took place on 4 August 2021) (the **"Previous North Glass Acquisition"**).

On 23 November 2022, the Company entered into the North Glass Share Transfer Agreement with Yaohua Group, pursuant to which the Company agreed to acquire and Yaohua Group agreed to dispose of 40% equity interest in North Glass at a consideration of RMB163,868,200 in cash.

THE DISPOSAL

On 23 November 2022, the Company entered into the Puyang CNBM Photovoltaic Materials Share Transfer Agreement with Yaohua Group (a subsidiary controlled by Triumph Group, an indirect controlling Shareholder). Accordingly, the Company agreed to dispose and Yaohua Group agreed to acquire 100% equity interest in Puyang CNBM Photovoltaic Materials at a consideration of RMB326,885,000 in cash.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter:

- (i) Pursuant to Rule 14A.54(1) of the Listing Rules, the Company is required to re-comply with the announcement and shareholders' approval requirements before the existing annual caps under the Engineering Construction Equipment Procurement and Installation Framework Agreement and the Sale and Purchase of Raw Materials Framework Agreement are exceeded, and accordingly the Company proposes to adopt the Proposed Revised Annual Caps, subject to Independent Shareholders' approval.
- (ii) The Acquisition constitutes discloseable and connected transaction of the Company and is therefore subject to reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.
- (iii) The Disposal constitutes discloseable and connected transaction of the Company and is therefore subject to reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Ms. Zhang Yajuan, Mr. Fan Baoqun, Mr. Chen Qisuo and Mr. Zhao Hulin (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Transactions at the Third EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in respect of the Previous North Glass Acquisition as contained in the Company's circular dated 30 June 2021. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

LETTER FROM GRAM CAPITAL

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of North Glass and Puyang CNBM Photovoltaic Materials, and we have not been furnished with any such evaluation or appraisal, save as and except for the asset valuation report (the “**North Glass Valuation Report**”) in respect of the appraisal value of the entire equity interest attributable to the shareholder of North Glass (the “**North Glass Valuation**”) and the asset valuation report (the “**Puyang Valuation Report**”) in respect of the appraisal value of the entire equity interest attributable to the shareholder of Puyang CNBM Photovoltaic Materials (the “**Puyang Valuation**”) prepared by 中京民信(北京)資產評估有限公司 (Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd.*) (the “**Asset Valuer**”), as set out in Appendices I and II to the Circular respectively. Since we are not experts in the valuation of assets or business, we have relied solely upon the North Glass Valuation Report for the North Glass Valuation and the Puyang Valuation Report for the Puyang Valuation, as at the Audit Valuation Benchmark Date (i.e. 31 December 2021).

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

LETTER FROM GRAM CAPITAL

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNBMG, Yaohua Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

Background of and reasons for the Transactions

Information on the Group

With reference to the Board Letter, the principal activities of the Company are production and sales of information display glass and new energy glass. The scope of business includes development, production, manufacture and installation of information display glass, new energy glass, photoelectric material for functional-glass category and its processed products and components, relevant materials, mechanical equipment and its electric appliances and accessories, relevant technical consultancy and technical services, as well as sales and after-sales services of self-produced products.

LETTER FROM GRAM CAPITAL

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "2021 Annual Report"):

	For the year ended 31 December 2021 <i>RMB</i>	Percentage to total operating revenue %	For the year ended 31 December 2020 <i>RMB</i>	Percentage to total operating revenue %	Year-on-year change %
Total operating revenue	3,605,601,992.64		3,381,105,357.02		6.64
– Information display glass	390,317,126.62	10.83	397,141,767.24	11.75	(1.72)
– New energy glass	2,741,774,527.87	76.04	2,558,869,152.90	75.68	7.15
– Other functional glass	464,605,625.19	12.89	372,553,613.42	11.02	24.71
– Other operations	8,904,712.96	0.24	52,540,823.46	1.55	(83.05)
Operating profit	362,605,339.31		537,951,539.16		(32.60)
Net profit attributable to the Shareholders	264,595,142.78		372,861,545.19		(29.04)

As illustrated in the above table, the Group's total operating revenue for the year ended 31 December 2021 ("FY2021") increased by approximately 6.64% as compared to that for the year ended 31 December 2020 ("FY2020"), while the operating revenue from new energy glass accounted for approximately 76.04% and 75.68% for FY2021 and FY2020 respectively. With reference to the 2021 Annual Report and as advised by the Directors, the aforesaid increase in total operating revenue was mainly due to (i) increase in scope of consolidation upon completion of the Previous Acquisition; and (ii) increase in sales volume.

The net profit attributable to the Shareholders for FY2021 decreased by approximately 29.04% as compared to that for FY2020. With reference to the 2021 Annual Report and as confirmed by the Directors, such decrease was mainly due to substantial increases in operating costs, administration expenses, research and development expenses which were partially offset by decrease in income tax expenses.

LETTER FROM GRAM CAPITAL

Set out below are the unaudited consolidated financial information of the Group for the six months ended 30 June 2022 (with comparative figures) as extracted from the Company's interim report for the six months ended 30 June 2022 (the “**2022 Interim Report**”):

	For the six months ended 30 June 2022 RMB	Percentage to total operating revenue %	For the six months ended 30 June 2021 RMB	Percentage to total operating revenue %	Year-on-year change %
Total operating revenue	2,356,478,561.97		1,812,458,050.62		30.02
– Information display glass	22,320,590.62	0.95	197,844,499.85	10.92	(88.72)
– New energy glass	2,156,904,513.52	91.53	1,380,281,060.03	76.16	56.27
– Other functional glass	172,131,630.57	7.30	217,641,023.12	12.01	(20.91)
– Other operations	5,121,827.26	0.22	16,691,467.62	0.91	(69.31)
Operating profit	281,297,181.10		314,279,640.64		(10.49)
Net profit attributable to the Shareholders	247,885,774.91		228,703,892.76		8.39

The Group's total operating revenue was approximately RM2.36 billion for the six months ended 30 June 2022 (“**1H2022**”), representing increase of approximately 30.02% as compared to that for the corresponding period in 2021. With reference to the 2022 Interim Report, such increase in total operating revenue was mainly due to increase in sales volume of new energy glass. The net profit attributable to the Shareholders for 1H2022 increased by approximately 8.39% as compared to that for the corresponding period in 2021.

With reference to the 2022 Interim Report, in the second half of 2022, the industry will still be in a boom in general, but the prices of raw materials and fuels may fluctuate at a high level, and the uncertainty of the growth of downstream market demand still exists. To this end, the Company will adhere to the determination of development, focus on management improvement and strengthen management measures of “Six Grasps and Six Promotions”, in order to swiftly increase market share, continue to promote merger and acquisition integration, accelerate the cultivation of new growth points, and make every effort to complete the annual operating targets and tasks.

Information on the CNBMG

With reference to the Board Letter, CNBMG, is a wholly state-owned enterprise incorporated in the PRC and the ultimate controlling Shareholder. It is a comprehensive building materials industry group and is the largest comprehensive building material group corporation in China and an enterprise of Fortune Global 500. It is deemed to be interested in 204,932,781 A Shares, representing approximately 31.74% of the total issued share capital of the Company as at the Latest Practicable Date.

LETTER FROM GRAM CAPITAL

Information on the Yaohua Group

With reference to the Board Letter, Yaohua Group is a subsidiary controlled by Triumph Group which is an indirect controlling Shareholder. Yaohua Group is a company incorporated in the PRC with limited liability. As of the Latest Practicable Date, the ultimate beneficial owner of Yaohua Group is CNBMG. Accordingly, Yaohua Group is a connected person of the Company.

Information on North Glass

With reference to the Board Letter, North Glass is a company incorporated in the PRC with limited liability. Its scope of business mainly covers production and sale of glass and glass products, refractory materials and ceramic products; import and export of goods and technologies; stevedoring services.

As aforementioned, the Company acquired 60% equity interest in North Glass pursuant to the Previous North Glass Acquisition (completion of relevant change in industrial and commercial registration took place on 4 August 2021). Accordingly, the Company became the legal owner of 60% equity interest in North Glass, and the percentage of equity interest held by Yaohua Group in North Glass changes from 100% to 40%. As at the Latest Practicable Date, the Company holds 60% equity interest in North Glass and Yaohua Group holds 40% equity interest in North Glass.

Set out below is the financial information of North Glass for the two years ended 31 December 2021 and the nine months ended 30 September 2022 as extracted from the Board Letter:

	For the nine months ended 30 September 2022 (unaudited) RMB	For the year ended 31 December 2021 (audited) RMB	For the year ended 31 December 2020 (audited) RMB
Operating income	246,912,600	465,912,433.35	485,549,082.70
Net profit before taxation	23,139,700	126,120,648.50	73,186,651.53
Net profit after taxation	23,112,000	126,120,648.50	73,186,651.53
	As at 30 September 2022 (unaudited) RMB	As at 31 December 2021 (audited) RMB	As at 31 December 2020 (audited) RMB
Net assets	350,986,300	327,874,310.42	201,753,661.92

LETTER FROM GRAM CAPITAL

Information on Puyang CNBM Photovoltaic Materials

With reference to the Board Letter, Puyang CNBM Photovoltaic Materials is a company incorporated in the PRC with limited liability (solely owned by legal person invested or controlled by a non-natural person). Its scope of business mainly covers production, processing and sale of solar thermal power glass, electronic glass and electronic information display glass; the processing of glass and the relevant raw materials; technical consultation and service for float glass, solar thermal power glass and photoelectricity information display glass.

Set out below is the financial information of Puyang CNBM Photovoltaic Materials for the two years ended 31 December 2021 and the nine months ended 30 September 2022, as extracted from the Board Letter:

	For the nine months ended 30 September 2022 (unaudited) RMB	For the year ended 31 December 2021 (audited) RMB	For the year ended 31 December 2020 (audited) RMB
Operating income	232,699,400	311,575,441.28	96,121,361.06
Net profit/(loss) before taxation	(26,310,200)	33,855,625.44	10,636,627.74
Net profit/(loss) after taxation	(26,640,400)	33,791,348.23	7,972,218.52
	As at 30 September 2022 (unaudited) RMB	As at 31 December 2021 (audited) RMB	As at 31 December 2020 (audited) RMB
Net assets	254,354,500	280,994,931.20	247,203,582.97

A. THE PROPOSED REVISIONS

(i) The Revision of Services Caps

Reasons for and benefits of the Revision of Services Caps

With reference to the Board Letter, CNBMG is the largest comprehensive building material group corporation in China and an enterprise of Fortune Global 500. Relying on the support of industrial platform and technological innovation from CNBMG and Triumph Group, the Company has focused on the main business of new energy materials, accelerated the optimization of regional layout, and successively established seven intelligent production bases in East China, Central China, North China and Southwest China.

LETTER FROM GRAM CAPITAL

According to the new energy materials business development strategy of the Group, the Company has adhered to the development path of combining mergers and acquisitions with new construction and renovation to continuously improve the industrial layout, expanded the scale of production capacity, enhanced the quality of assets and operational efficiency, and promoted greater synergy. In terms of engineering construction, CNBMG and the Group have a good foundation of cooperation and communication mechanism, which can meet the Group's demand for intelligent, green, advanced and reliable new construction and renovation projects, and help enhance the market competitiveness of the Company's core business.

In view of the increase in the number of engineering construction projects and the expansion in the scale of single production lines, the Company expects that the actual transaction amounts under the Engineering Construction Equipment Procurement and Installation Framework Agreement may exceed the existing annual caps for 2022 and 2023, and for the purpose of meeting the Company's business development plan for the current and next year, the Company proposes to revise the existing annual caps.

Based on the above, the Revision of Services Caps can support the Group's business operation and development. Accordingly, we consider that the Revision of Services Caps is conducted under the ordinary and usual course of the Group's business and is in the interest of the Company and the Shareholders as a whole.

Principal terms of the Revision of Services Caps

Agreement dates

2 December 2020; revised on 23 November 2022

Parties

The Company and CNBMG

Subject matter

Pursuant to the Engineering Construction Equipment Procurement and Installation Framework Agreement, CNBMG Group agreed to provide the required equipment, materials and construction and installation services etc. (the "**Services**") to the Group according to the project planning and requirement for the engineering and construction projects of the Group.

LETTER FROM GRAM CAPITAL

Pricing standards

The price or consideration of the years 2022–2023 under the Services Supplemental Agreement and the transactions contemplated thereunder will be determined with reference to:

- (i) prices offered by CNBMG to other independent third party(ies) in respect of engineering projects of the same or similar size;
- (ii) comparable transactions (if any) conducted with independent third party(ies) by the Group in respect of engineering projects of the same or similar size during the same period; and
- (iii) communication and exchange on price information by various means, including telephone conversations, emails and meetings, with peers and cooperative partners in the photovoltaic glass manufacturing industry.

If there are no available prevailing market prices or where it is impracticable to obtain such market prices, the Group and the CNBMG will determine the price after arm's length negotiation with reference to:

- (i) similar transactions conducted between CNBMG and independent third party(ies); and/or
- (ii) the costs of provision of equipment and materials by CNBMG for engineering projects, technical requirements for installation, manpower involved, complexity of engineering projects, advancement level of technology and duration of the installation. The price to be offered by CNBMG to the Group shall not be less favourable than those offered by CNBMG to other independent third party(ies) in respect of provision of services of the same or similar type.

With reference to the 2021 Annual Report, the independent non-executive Directors reviewed the Group's continuing connected transactions (including the procurement of the Services under the Engineering Construction Equipment Procurement and Installation Framework Agreement) during FY2021 and confirmed that these transactions were (i) in the usual and ordinary course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) entering into of the transaction agreements is fair and reasonable and in line with regulatory requirements and the interests of the Shareholders as a whole (the **"INEDs' Confirmation"**).

LETTER FROM GRAM CAPITAL

In addition, WUYIGE Certified Public Accountants LLP (“WUYIGE”) was engaged to report on the Group’s continuing connected transaction (including the procurement of the Services under the Engineering Construction Equipment Procurement and Installation Framework Agreement) in accordance with Chinese Certified Public Accountants Standards on Other Assurance Engagements No. 3101 Assurance Engagements other than Audit or Review of Historical Financial Information promulgated by Ministry of Finance of the PRC and by reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” promulgated by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, WUYIGE provided a letter to the Board regarding the Group’s continuing connected transaction (including the procurement of the Services under the Engineering Construction Equipment Procurement and Installation Framework Agreement) during FY2021 confirming that such transactions (1) have received the approval from the Board; (2) the transactions in relation to provision of goods and services in accordance with the pricing policies of the Group; (3) have been entered into in accordance with the relevant agreements governing the transactions; and (4) have not exceeded the annual caps disclosed in previous announcements of the Company (the “**Auditors’ Confirmation**”).

Revised Services Caps

Set out below are (i) the historical/existing annual caps under the Engineering Construction Equipment Procurement and Installation Framework Agreement for each of the four years ending 31 December 2023; (ii) the historical transaction amount for each of the three years ending 31 December 2022; and (iii) the Proposed Revised Annual Caps under the Services Supplemental Agreement (the “**Revised Services Cap(s)**”) for the two years ending 31 December 2023 as extracted from the Board Letter:

	For the year ended 31 December 2020 <i>RMB'million</i>	For the year ended 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
Historical transaction amount	580.56	2,001	1,259 ^(Note)	–
Historical/existing annual caps	685	2,300	1,500	2,000
Utilisation rate	84.75	87.01	83.93 ^(Note)	Undetermined

LETTER FROM GRAM CAPITAL

	For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
Revised Services Caps	3,300	3,700

Note: For the period from 1 January 2022 to 6 December 2022 (“**2022 Latest Period**”)

With reference to the Board Letter, the Revised Services Caps were determined mainly based on the estimated amounts of the equipment materials, construction and equipment installation services required for the ongoing and proposed engineering projects of the Group, mainly taking into consideration:

- (i) the estimated price of the EPC Contract for the Phase I Project of Photovoltaic Cell Encapsulating Material for Solar Energy Equipment of CNBM (Luoyang) New Energy Co., Ltd.* (中建材(洛陽)新能源有限公司) being constructed by the Group in 2022 (the “**LY New Energy Project**”);
- (ii) the upfront expenses for the commencement of construction of the Phase II Project of Photovoltaic Cell Encapsulating Material for Solar Energy Equipment of Kaisheng (Zigong) New Energy (凱盛(自貢)新能源) (the “**ZG Kaisheng Project**”); the Phase I technological transformation project and Phase III new project of Kaisheng (Zhangzhou) New Energy Co., Ltd.* (凱盛(漳州)新能源有限公司) (formerly known as TG Fujian Photovoltaic Glass Co., Ltd.* (台玻福建光伏玻璃有限公司), the “**ZZ Kaisheng**” and the “**ZZ Kaisheng Projects**”); and the Phase II of the LY New Energy Project the Group plans to implement in 2023; and
- (iii) the estimated prices and costs of engineering equipment materials, construction and equipment installation services are mainly based on (1) the historical transactions between the Group and CNBMG for construction projects of similar capacity scale and product structure; and (2) the feasibility study reports on the ongoing and proposed projects of the Group as of 31 December 2023.

As illustrated in the above table, the utilisation rate of the historical/existing annual caps was approximately 84.75% and 87.01% for FY2020 and FY2021 respectively, and the historical transaction amount for 2022 Latest Period accounted for approximately 83.93% of the existing annual cap for the year ending 31 December 2022 (“**FY2022**”). The historical/existing annual caps have been substantially utilised.

LETTER FROM GRAM CAPITAL

We understood from the Directors that the Revised Services Cap for FY2022 was formulated with reference to (i) the historical transaction amount of approximately RMB1,143 million for the eight months ended 31 August 2022 (“**8M2022**”); and (ii) the estimated transaction amount for the four months from 1 September 2022 to 31 December 2022 (the “**Last Four Months of 2022**”).

For our due diligence purpose, we obtained a calculation of the estimated transaction amount for the Last Four Months of 2022 and for the year ending 31 December 2023 (“**FY2023**”). We noted that the estimated transaction amount for the Last Four Months of 2022 and for FY2023 was formulated based on the estimated contracts (together with the estimated contract sum) to be entered between the Group and the CNBMG Group.

Based on the calculation, we noted that the estimated transaction amount for the Last Four Months of 2022 was mainly attributed by the implementation of the Phase I of the LY New Energy Project during the Last Four Months of 2022. As noted from the Company’s announcement dated 8 October 2022 regarding, among other things, the LY New Energy Project, the estimated construction investment of the LY New Energy Project (including both Phase I and Phase II) was estimated to be approximately RMB2,093 million (the “**LY Estimated Investment Amount**”). Under the calculation, the estimated transaction amount for Phase I of the LY New Energy Project for the Last Four Months of 2022 was approximately RMB1,830 million. Together with the estimated transaction amount for other projects, the estimated transaction amount for the Last Four Months of 2022 would be approximately RMB2,054 million.

The sum of (i) the estimated transaction amount of approximately RMB2,054 million for the Last Four Months of 2022; and (ii) the historical transaction amount of approximately RMB1,143 million for 8M2022, is approximately RMB3,197 million. The Revised Services Cap for FY2022 of RMB3,300 million was determined after adding a top-up buffer. Given the aforesaid, we do not doubt the reasonableness of the Revised Services Cap for FY2022.

In respect of the Revised Services Cap for FY2023, we noted from the aforesaid calculation that the estimated transaction amount for FY2023 was approximately RMB3,696 million based on the projects as set out in the Board Letter (including Phase II of ZG Kaisheng Project, ZZ Kaisheng Projects and Phase II of LY New Energy Project). The Revised Services Cap of RMB3,700 million for FY2023 was determined after adding a top-up buffer.

In light of the above, we consider that the Revised Services Caps for the two years ending 31 December 2023 are fair and reasonable.

Shareholders should note that as the Revised Services Caps for the two years ending 31 December 2023 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of cost to be incurred for the Services. Consequently, we express no opinion as to how closely the actual cost to be incurred for the Services will correspond with the Revised Services Caps.

Having considered the above, we are of the view that the terms of the Revision of Services Caps are on normal commercial terms and are fair and reasonable.

(ii) **The Revision of Raw Materials Caps**

Reasons for and benefits of the Revision of Raw Materials Caps

In 2022, the Phase I Project of Photovoltaic Cell Encapsulating Material for Solar Energy Equipment of CNBM (Tongcheng) New Energy Materials Company Limited* (中國建材桐城新能源材料有限公司) (a subsidiary of the Company) and the Project of Photovoltaic Cell Encapsulating Material for Solar Equipment of CNBM (Hefei) New Energy Co., Ltd.* (中建材(合肥)新能源有限公司) (a subsidiary of the Company) have commenced operation. The project of acquisition of ZZ Kaisheng (a subsidiary of the Company) has been completed in October 2022. The increase in production capacity and production line will lead to a significant rise in the procurement of bulk raw materials, including sodium carbonate and silicon powder. For 8M2022, the actual purchase amount of raw materials amounted to RMB581,686,200 and the estimated purchase amount from September to December 2022 will amount to RMB471,278,000. It is expected that in 2023, the construction of the 1,200-ton photovoltaic production line of North Glass will be completed and commence manufacturing operation. The demand for preparation material for the Group's production lines (including the 1,200-ton photovoltaic production line of CNBM (Luoyang) New Energy Co., Ltd.* (中建材(洛陽)新能源有限公司)) is expected to amount to RMB1,914,434,400.

The Group has selected to use the centralised procurement business platform of Triumph Mineral to acquire a more competitive raw material procurement price due to its large-scale tender procurement, and to ensure a stable supply of raw materials in the long run.

Based on the above, the Revision of Raw Materials Caps can support the Group's business operation and development. Accordingly, we consider that the Revision of Raw Materials Caps is conducted under the ordinary and usual course of the Group's business and is in the interest of the Company and the Shareholders as a whole.

LETTER FROM GRAM CAPITAL

Principal terms of the Revision of Raw Materials

Agreement dates

2 December 2020; revised on 23 November 2022

Parties

The Company and CNBMG

Subject matter

Pursuant to the Sale and Purchase of Raw Materials Framework Agreement, the CNBMG Group agreed to supply raw materials, such as silicon powder and sodium carbonate to the Group (the “**Raw Materials Transactions**”). The CNBMG Group will organise the production and procurement of silicon powder and sodium carbonate required for production according to the purchase plan of raw materials provided by the Group and supply such raw materials as required to the Group. The purchase plan forms part of the Sale and Purchase of Raw Materials Framework Agreement.

Pricing standards

Triumph is a wholly-owned subsidiary of CNBMG, and Triumph is an indirect controlling Shareholder while Triumph Mineral is a wholly-owned subsidiary of Triumph. In order to reduce procurement costs, the Group implements centralized procurement of bulk raw materials (such as sodium carbonate and silicon powder) through the centralized tender procurement business platform of Triumph Mineral. Triumph Mineral procures raw material through large scale centralized tender and sells raw materials to the Group at cost which is determined based on the tender price plus the cost of holding funds (i.e. plus 1% in the case of a one-month term contract).

With reference to the 2021 Annual Report, the independent non-executive Directors provided the INED Confirmation and WUYIGE provided the Auditors’ Confirmation in respect of, among others, the Group’s continuing connected transactions (including the Raw Materials Transactions).

LETTER FROM GRAM CAPITAL

Revised Raw Materials Caps

Set out below are (i) the historical or existing annual caps under the Sale and Purchase of Raw Materials Framework Agreement for each of the four years ending 31 December 2023; (ii) the historical transaction amount for the three years ending 31 December 2022; and (iii) the Proposed Revised Annual Caps under the Raw Materials Supplemental Agreement (the “**Revised Raw Materials Cap(s)**”) for the two years ending 31 December 2023 as extracted from the Board Letter:

	For the year ended 31 December 2020 <i>RMB'million</i>	For the year ended 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
Historical transaction amount	215.04	421.47	792.92 ^(Note)	–
Historical/existing annual caps	580.23	601	800	860
Utilisation rate	37.06	70.13	99.12 ^(Note)	Undetermined
			For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
Revised Raw Material Caps			1,200	2,000

Note: For the 2022 Latest Period

With reference to the Board Letter, the Revised Raw Materials Caps have been determined based on the following factors, including: (i) current purchase amount of various raw materials; (ii) the Group’s estimated demands for the raw materials.

As illustrated in the above table, the utilisation rate of the historical/existing annual caps was approximately 37.06% and 70.13% for FY2020 and FY2021 respectively, and the historical transaction amount for 2022 Latest Period accounted for approximately 99.12% of the existing annual cap for FY2022. There are increasing demand for the Raw Material Transactions during the three years ending 31 December 2022.

LETTER FROM GRAM CAPITAL

We further enquired into the Directors regarding the increasing demand and were advised that the Group had been expanding its production capacity through organic growth and acquisitions, in particular, the Previous North Glass Acquisition in 2021 and the acquisition of equity interests in ZZ Kaisheng, a company incorporated in the PRC with limited liability which is principally engaged in, among other things, the production of high-quality photovoltaic glass and sale of self-produced products in 2022.

For our due diligence purpose, we obtained a calculation of the estimated transaction amount of Raw Materials Transactions for the Last Four Months of 2022 and for FY2023. We noted that the estimated transaction amounts were formulated based on (i) the estimated procurement quantity based on the daily processing capacity and the number of production days of each subsidiary that demand silicon powder and sodium carbonate; and (ii) the estimated weighted average unit prices for silicon powder and sodium carbonate for the Last Four Months of 2022 and FY2023, which are comparable to the historical unit prices for 8M2022 according to the Company's record.

The sum of (i) the actual transaction amount of Raw Materials Transactions for 8M2022; and (ii) the estimated transaction amount of Raw Materials Transactions for the Last Four Months of 2022, is approximately RMB1,053 million. The Revised Raw Materials Cap for FY2022 of RMB1,200 million was determined after adding a top-up buffer.

The estimated transaction amount of Raw Materials Transactions for FY2023 is approximately RMB1,914 million. The Revised Raw Materials Cap for FY2023 of RMB2,000 million was determined after adding a top-up buffer.

In light of the above, we consider that the Revised Raw Materials Caps for the two years ending 31 December 2023 are fair and reasonable.

Shareholders should note that as the Revised Raw Materials Caps for the two years ending 31 December 2023 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of cost to be incurred from the Raw Materials Transactions. Consequently, we express no opinion as to how closely the actual cost to be generated from the Raw Materials Transactions will correspond with the Revised Raw Materials Caps.

Having considered the above, we are of the view that the terms of the Revision of Raw Materials Caps are on normal commercial terms and are fair and reasonable.

LETTER FROM GRAM CAPITAL

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the value of the Services and the Raw Material Transactions must be restricted by the Proposed Revised Annual Caps for the period concerned under the Relevant Supplemental Agreements; (ii) the terms of the Services and the Raw Material Transactions must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Services and the Raw Material Transactions must be included in the Company's subsequent published annual reports. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Services and the Raw Material Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group; (iii) was not entered into, in all material respects, in accordance with the relevant agreement governing the Services and the Raw Material Transactions; and (iv) have exceeded the Proposed Revised Annual Caps. In the event that the total amounts of the Services or the Raw Material Transactions exceed the Proposed Revised Annual Caps, or that there is any material amendment to the terms of the Services and the Raw Material Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Services and the Raw Material Transactions and thus the interest of the Independent Shareholders would be safeguarded.

Recommendation on the Proposed Revisions

Having taken into account that above factors and reasons, we are of the opinion that (i) the Proposed Revisions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Proposed Revisions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Third EGM to approve the Proposed Revisions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

LETTER FROM GRAM CAPITAL

B. THE ACQUISITION

Reasons for and benefits of the Acquisition

With reference to the Board Letter, after the completion of the Acquisition, North Glass will become a wholly-owned subsidiary of the Company, which will be conducive to improving its decision-making efficiency with regard to its operation and expediting the construction progress of solar photovoltaic cell packaging material project of North Glass. At the same time, the Acquisition will also help the Company to streamline its business structure, clarify its business scope, adjust its product structure and highlight its main business advantages; which is in line with the long-term strategic positioning and the interests of the Shareholders of the Company as a whole.

As illustrated in the section headed “Information on the Company” above, the Group’s operating revenue from new energy glass segment accounted for 76.04% of the Group’s total operating revenue for FY2021. According to the 2021 Annual Report, the new energy glass segment mainly produces photovoltaic original glass and its further processed products. As advised by the Directors, the Acquisition is in line with the Company’s intention on expansion and development of the new energy glass segment to take advantage of the growing demands in renewable energy.

Having considered (i) the aforesaid reasons and benefits of the Acquisition; and (ii) the Acquisition is in line with the Group’s development plans, we concur with the Directors that, although the Acquisition is not conducted in the ordinary and usual course of business of the Group, the Acquisition is in the interest of the Company and its Shareholders as a whole.

Principal terms of the Acquisition

Set out below are the principal terms of the Acquisition, details of which are set out in the Board Letter:

Date: 23 November 2022

Parties: (1) Yaohua Group (as the transferor); and
(2) the Company (as the transferee)

Subject matter: Yaohua Group agreed to dispose of and the Company agreed to acquire the remaining 40% equity interest in North Glass (i.e. the North Glass Target Equity Interest). From the date on which the industrial and commercial registration changes in the transfer of the North Glass Target Equity Interest are completed (i.e. Registration Completion Date), the Company will become the legal owner of the North Glass Target Equity Interest, the Company will hold 100% equity interest in North Glass and Yaohua Group will cease to hold equity interest in North Glass.

LETTER FROM GRAM CAPITAL

North Glass Share Transfer Price

With reference to the Board Letter, the transfer price of the North Glass Target Equity Interest was determined after arm's length negotiations between the Company and Yaohua Group on normal commercial terms, with reference to, among others, the assets appraisal report of North Glass determining the appraisal value of the entire equity interest attributable to the shareholders of North Glass prepared by the Asset Valuer, based on the appraisal results of the cost method (asset-based method) as the appraisal conclusion. Accordingly, the appraisal value of the entire equity interest attributable to the shareholders of North Glass as of 31 December 2021 was approximately RMB409,670,500 (i.e. the North Glass Valuation).

Based on the above valuation result, it was determined that the transfer price of equity interest in North Glass is 40% of the appraisal value of the entire equity interest attributable to the shareholders of North Glass as of 31 December 2021, which is RMB163,868,200.

North Glass Valuation

With reference to the Board Letter, the appraisal results of the North Glass Valuation Report is valid for one year, i.e. from 31 December 2021 to 30 December 2022. During such period, there were no material changes in the condition of North Glass, and meanwhile, the profits and losses of North Glass realized after the Audit Valuation Reference Date shall be borne or enjoyed by North Glass, and shall be indirectly borne or enjoyed by the Company (the “**Acquisition P&L Provision**”). Therefore, the Directors are of the view that it is fair and reasonable to adopt such appraisal results as the basis for consideration. Given the Acquisition P&L Provision, we do not doubt the adoption of the North Glass Valuation as at 31 December 2021 for determining the North Glass Consideration.

To assess the fairness and reasonableness of the North Glass Consideration, we obtained the North Glass Valuation Report prepared by the Asset Valuer from the Company and noted that the North Glass Valuation as at 31 December 2021 was approximately RMB409,670,500.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Asset Valuer with the Company; (ii) the Asset Valuer's qualification in relation to the preparation of the North Glass Valuation Report; and (iii) the steps and due diligence measures taken by the Asset Valuer for conducting the North Glass Valuation Report. From the mandate letter and other relevant information provided by the Asset Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Asset Valuer as well as their qualification for preparation of the North Glass Valuation Report. The Asset Valuer also confirmed that they are independent to the Group, North Glass and the Yaohua Group.

We further reviewed and enquired into the Asset Valuer on the methodologies adopted and the basis and assumptions adopted in the North Glass Valuation Report in order for us to understand the North Glass Valuation Report. Details of the assumptions are set out under Appendix I to the Circular. We noted from the North Glass Valuation Report that the North Glass Valuation Report was prepared by the Asset Valuer in accordance with various requirements or standards, including 《資產評估準則基本準則》 (Asset Evaluation Standards – Basic Standards*) as issued by the Ministry of Finance of the PRC. According to the 《資產評估準則基本準則》 (Asset Evaluation Standards – Basic Standards*), (i) the fundamental valuation approaches of assets valuation include income approach, market approach and asset-based approach, and (ii) the valuer should analyse the applicability of the three fundamental valuation approaches and select the valuation methodology.

The North Glass Valuation Report was prepared by the Asset Valuer and concluded by adopting cost method (asset-based method). As confirmed by the Asset Valuer, the Asset Valuer has considered the three generally accepted business enterprise appraisal approaches to value, namely, income approach, market approach and cost approach (asset-based approach). Upon our further enquiry with the Asset Valuer, we understood that:

- (i) market approach refers to the valuation method whereby the value of the valuation target is determined by comparing the valuation target with comparable listed companies or comparable transaction cases. The use of market approach requires (1) an active market with substantial amount of market reference and comparable indicators with those of the appraisee; and (2) parameters are able to obtain and quantify. Having considered the lack of comparable listed entities and transactions in the market, the Asset Valuer considered that market approach is not applicable for the North Glass Valuation.
- (ii) under income approach, the Asset Valuer considers the assets' expected profitability, which is able to reflect the overall value of the enterprise. North Glass satisfies the prerequisites of: going concern assumption; future economic benefit to be determined; and stable correlation between shareholders' equity and enterprise operating income. Income approach is applicable for the North Glass Valuation.

LETTER FROM GRAM CAPITAL

- (iii) under cost approach (asset-based approach), the value of identifiable assets and liabilities of North Glass are considered when concluding the North Glass Valuation. As the appraised assets in the North Glass Valuation are in continuous state of use or presumed to be in continuous state of use, with sufficient historical information to support the North Glass Valuation under cost approach (asset-based approach), cost approach (asset-based approach) is applicable for the North Glass Valuation.

We noted from the North Glass Valuation Report that, despite both income approach and cost approach (asset-based approach) are applicable for the valuation, the Asset Valuer considered that although the business scale and net income of North Glass risen steadily in 2021, the judgement on the time and speed of the recovery and the future profitability of North Glass is still uncertain due to limited data and information obtained, as such, the Asset Valuer rejected the result of income approach and adopted the results of costs approach (asset-based approach) when concluding the North Glass Valuation.

Having considered that (i) the North Glass Valuation Report were prepared by the Asset Valuer in accordance with various requirements or standards; (ii) the Asset Valuer considered the fundamental valuation approaches before rejecting the use of market approach; (iii) the aforesaid rationale of the Asset Valuer in selecting cost approach (asset-based approach) over income approach despite both approaches are applicable to the North Glass Valuation, we are of the view that the adoption of cost approach (asset-based approach) for the North Glass Valuation is fair and reasonable and we did not consider other approaches to assess the North Glass Valuation.

In arriving at the North Glass Valuation, the Asset Valuer categorised the assets and liabilities of North Glass into (1) current assets; (2) buildings and structures; (3) equipment; (4) projects under construction; (5) intangible assets (including land use rights); (6) other non-current assets (including long-term prepayment); and (7) liabilities.

- (1) **Current assets:** the book value and appraisal value of North Glass's current assets were approximately RMB177.5 million and RMB191.5 million respectively as at the Audit Valuation Reference Date. The increase in appraisal value of current assets as compared to its book value was primarily due to the appreciation of the value of raw materials (included in inventories).

We noted from the North Glass Valuation Report that the Asset Valuer took into account the then selling price and the estimated relevant costs of the inventories in assessing the appraisal value of inventories. We obtained an illustration of the valuation process for a type of raw material and noted that the Asset Valuer had (i) obtained a detailed list of North Glass's current assets and North Glass's general ledger to cross-check the name and quantity of the current assets to assess the completeness and accuracy of North Glass's record; (ii) conducted sampling check (with sample size no less than 60% in terms of total value and no less than

LETTER FROM GRAM CAPITAL

40% in terms of quantity) on inventories to examined the condition of the inventories and verified the quantity of each type of inventories; and (iii) calculated the appraisal value based on the verified quantity, the then selling price and the estimated relevant costs.

- (2) **Buildings and structures:** the book value and appraisal value of North Glass's buildings and structures were approximately RMB85.9 million and RMB119.9 million respectively as at the Audit Valuation Reference Date, representing an appreciation of approximately RMB34.0 million.

We noted from the North Glass Valuation Report that the Asset Valuer adopted the replacement cost method in assessing the appraisal value of buildings and structures, which took into account the current status of each building and structure and the cost to replace or reconstruct such building or structure in its current status. The Asset Valuer determined costs per square meter based on the material, labour and machinery costs at the time when the relevant building or structure were constructed and the cost of capital required to replace or reconstruct such building or structure, adjusted by the newness rate of each building or structure. The newness rate was determined with reference to the condition of each building or structure based on the Asset Valuer's physical inspection and the estimated remaining useful life of each building or structure.

- (3) **Equipment:** the book value and appraisal value of North Glass's equipment were approximately RMB64.9 million and RMB61.3 million respectively as at the Audit Valuation Reference Date, representing a depreciation of approximately RMB3.6 million. North Glass's equipment primarily consist of machineries and the aforesaid depreciation in value of North Glass's equipment was mainly due to the decrease in appraisal value of machineries.

We noted from the North Glass Valuation Report that the Asset Valuer adopted the replacement cost method in assessing the appraisal value of equipment, which took into account the current status of each equipment and the costs to be incurred to replace such asset in its current status. The Asset Valuer considered the market price for the same equipment or equipment with same functionality (based on the Asset Valuer's interview with the relevant manufacturer or retailer or the quoted price from relevant manufacturer or retailer), the costs associated with replacing such equipment (such as transportation costs, installation costs, inspection costs and relevant cost of capital), adjusted by the newness rate of the relevant equipment. The newness rate was determined with reference to the condition of each equipment based on the Asset Valuer's physical inspection and the estimated remaining useful life of each equipment.

LETTER FROM GRAM CAPITAL

- (4) **Projects under construction:** the book value and appraisal value of North Glass's projects under construction were approximately RMB32.0 million and RMB25.0 million respectively as at the Audit Valuation Reference Date, representing a depreciation of approximately RMB7.0 million.

We noted from the North Glass Valuation Report that the Asset Valuer verified the construction progress and assessed the economic depreciation value of the projects based on the replacement costs, physical depreciation value and functionality depreciation value in determining the appraisal value of the projects under construction.

- (5) **Intangible assets (including land use rights):** the book value and appraisal value of North Glass's intangible assets were approximately RMB129.4 million and RMB170.9 million respectively, representing an appreciation of approximately RMB41.5 million, which was due to the increase in appraisal value of land use rights.

We noted from the North Glass Valuation Report that the Asset Valuer verified the detailed list of the land use rights, performed market research on the market price of similar lands and performed physical inspection. The Asset Valuer adopted the base price coefficient correlation approach and the cost approach and taken the average of the results from both approaches in determining appraisal value of the land use rights. Under base price coefficient correlation approach, the Asset Valuer considered various factors such as land usage, road and utility accessibility, regional infrastructure level, environmental status; and under cost approach, the Asset Valuer determined the appraisal value of the land use rights based on the land acquisition costs, relevant taxes, land development costs, expected investment interests, expected investment return and expected land appreciation value.

- (6) **Other non-current assets (including long-term prepayment):** the book value of other non-current assets (including long-term prepayment) was approximately RMB71.0 million as at the Audit Valuation Reference Date, and the appraisal value was the same as the book value as at the Audit Valuation Reference Date.

We noted from the North Glass Valuation Report that prior to assessing the appraisal value of other non-current assets (including long-term prepayment), the Asset Valuer (i) understood the nature and status of the other non-current assets (including long-term prepayment); and (ii) performed verification work, on a sampling basis, on certain accounting entries to ensure the accuracy of the book value of other non-current assets (including long-term prepayment).

- (7) **Liabilities:** the book value of liabilities was approximately RMB230.5 million as at the Audit Valuation Reference Date, and the appraisal value was the same as the book value as at the Audit Valuation Reference Date.

LETTER FROM GRAM CAPITAL

We noted from the North Glass Valuation Report that prior to assessing the appraisal value of liabilities, the Asset Valuer (i) understood the nature and status of liabilities; and (ii) performed verification work, on a sampling basis, on certain accounting entries to ensure the accuracy of the book value of liabilities.

During our discussion with the Asset Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the North Glass Valuation Report.

Having considered our independent work performed on the North Glass Valuation Report and that the North Glass Consideration of RMB163,868,200 represents 40% of the North Glass Valuation as at the Audit Valuation Reference Date (i.e. 31 December 2021), we are of the view that the North Glass Consideration is fair and reasonable.

Payment method

With reference to the Board Letter, the Company intends to pay the North Glass Share Transfer Price in cash by instalment, which will be funded by the Company's own funds. The Company shall pay the North Glass Share Transfer Price to Yaohua Group in the following ways:

- (i) **The first instalment:** The Company shall pay 10% of the North Glass Share Transfer Price, being RMB16,386,820, to Yaohua Group within 15 working days from the effective date of the North Glass Share Transfer Agreement. Within seven working days after the payment by the Company, 40% equity interest in North Glass held by Yaohua Group shall be registered under the Company's name.
- (ii) **The second instalment:** The Company shall pay 40% of the North Glass Share Transfer Price to Yaohua Group before 31 December 2022. After this payment, the payment shall aggregate to 50% of the North Glass Share Transfer Price.
- (iii) **The third instalment:** The Company shall pay the remaining balance of the Share Transfer Price to Yaohua Group before 30 June 2023.

As the North Glass Share Transfer Agreement shall become effective from the date on which all the conditions set out under the Board Letter have been satisfied, we consider the above payment method to be fair and reasonable.

Taking into account the above principal terms of the Acquisition, we consider that the terms of the Acquisition are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

LETTER FROM GRAM CAPITAL

Possible financial effects of the Acquisition

With reference to the Company's third quarterly report for the nine months ended 30 September 2022, the unaudited total equity attributable to owners of the Company was approximately RMB4,096 million as at 30 September 2022. As confirmed by the Directors, the Acquisition would reduce the total equity attributable to owners of the Company.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Acquisition.

Recommendation on the Acquisition

Having taken into account that above factors and reasons, we are of the opinion that (i) although the Acquisition is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the Third EGM to approve the Acquisition and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

C. THE DISPOSAL

Reasons for and benefits of the Disposal

With reference to the Board Letter, the Disposal is a business structuring and adjustment made after the comprehensive assessment of the current main business and operation of Puyang CNBM Photovoltaic Materials, also taking into account the Company's long-term strategic and future development direction. The Disposal helps to further clarify the business scope and product structure of the Company, concentrate on premium resources, strengthen and refine the main business, and continuously improve the profitability and income quality.

With reference to the Board Letter, Puyang CNBM Photovoltaic Materials is mainly engaged in the research and development, production and sales of ultra-white solar thermal materials, business structure and product positioning of which are relatively independent. Its operating revenue accounts for a relatively small proportion of the Company's overall operating revenue. The Disposal will not impose significant changes to the Company's main business income composition and will not affect the development of the Company's business pillar of new energy materials.

LETTER FROM GRAM CAPITAL

Having considered (i) the aforesaid reasons and benefits of the Disposal; and (ii) the Disposal will not affect the development of the Company's business pillar of new energy materials, we concur with the Directors that, although the Disposal is not conducted in the ordinary and usual course of business of the Group, the Disposal is in the interest of the Company and its Shareholders as a whole.

Principal terms of the Disposal

Set out below are the principal terms of the Disposal, details of which are set out in the Board Letter:

Date: 23 November 2022

Parties: (1) the Company (as transferor); and

(2) Yaohua Group (as transferee)

Subject matter: Pursuant to the Share Transfer Agreement, the Company has agreed to dispose of and Yaohua Group has agreed to acquire 100% equity interest in Puyang CNBM Photovoltaic Materials.

Puyang CNBM Photovoltaic Materials Share Transfer Price

With reference to the Board Letter, the Puyang CNBM Photovoltaic Materials Share Transfer Price was approximately RMB326,885,000, which was determined after arm's length negotiations between the Company and Yaohua Group on end of the normal commercial terms, with reference to, among others, the assets appraisal report of Puyang CNBM Photovoltaic Materials determining the appraisal value of the entire equity interest attributable to the shareholders of Puyang CNBM Photovoltaic Materials prepared by the Asset Valuer, based on the appraisal results of the cost approach (asset-based approach) as the appraisal conclusion. Accordingly, the appraisal value of the entire equity interest attributable to the shareholders of Puyang CNBM Photovoltaic Materials as of 31 December 2021 was approximately RMB326,885,000.

Based on the above valuation result, it was determined that the transfer price of Puyang CNBM Photovoltaic Materials Share Transfer Price is RMB326,885,000.

LETTER FROM GRAM CAPITAL

Puyang Valuation

With reference to the Board Letter, the main considerations of the Board for selecting 31 December 2021 as the Audit Valuation Reference Date for the financial information of Puyang CNBM Photovoltaic Materials are: 31 December 2021 is the timing for conducting the audit of the financial year, which allows the use of Puyang CNBM Photovoltaic Materials' annual audit report and is more efficient for moving forward the project of the Disposal; furthermore, the Board believes that the operating conditions of Puyang CNBM Photovoltaic Materials have no material change from the Audit Valuation Reference Date to the signing date of the Puyang CNBM Photovoltaic Materials Share Transfer Agreement. Based on the analysis of the above factors, the Board is of the view that there has been no significant change in the operating conditions of Puyang CNBM Photovoltaic Materials of the Disposal from the Audit Valuation Reference Date to the signing date of the Puyang CNBM Photovoltaic Materials Share Transfer Agreement. At the same time, according to the relevant provisions of the Puyang CNBM Photovoltaic Materials Share Transfer Agreement, the profits and losses incurred by Puyang CNBM Photovoltaic Materials realized after the Audit Valuation Reference Date shall be borne or enjoyed by Puyang CNBM Photovoltaic Materials, and shall be indirectly borne or enjoyed by Yaohua Group from the Audit Valuation Reference Date to the Completion date of the Disposal (the “**Disposal P&L Provision**”). Therefore, the valuation results with 31 December 2021 as the Audit Valuation Reference Date are adopted as one of the pricing bases, which is determined on an arm's length basis for transactions between both parties, and the pricing basis is fair and reasonable. Given the Disposal P&L Provision, we do not doubt the adoption of the Puyang Valuation as at 31 December 2021 for determining the Puyang Consideration.

To assess the fairness and reasonableness of the Puyang Consideration, we obtained the Puyang Valuation Report prepared by the Asset Valuer from the Company and noted that the Puyang Valuation as at 31 December 2021 was RMB326,885,000.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Asset Valuer with the Company; (ii) the Asset Valuer's qualification in relation to the preparation of the Puyang Valuation Report; and (iii) the steps and due diligence measures taken by the Asset Valuer for conducting the Puyang Valuation Report. From the mandate letter and other relevant information provided by the Asset Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Asset Valuer as well as their qualification for preparation of the Puyang Valuation Report. The Asset Valuer also confirmed that they are independent to the Group, Puyang and the Yaohua Group.

LETTER FROM GRAM CAPITAL

We further reviewed and enquired into the Asset Valuer on the methodologies adopted and the basis and assumptions adopted in the Puyang Valuation Report in order for us to understand the Puyang Valuation Report. Details of the assumptions are set out in Appendix II to the Circular. We noted from the Puyang Valuation Report that the Puyang Valuation Report was prepared by the Asset Valuer in accordance with various requirements or standards, including 《資產評估準則基本準則》 (Asset Evaluation Standards – Basic Standards*) as issued by the Ministry of Finance of the PRC. According to the 《資產評估準則基本準則》 (Asset Evaluation Standards – Basic Standards*), (i) the fundamental valuation approaches of assets valuation include income approach, market approach and asset-based approach, and (ii) the valuer should analyse the applicability of the three fundamental valuation approaches and select the valuation methodology.

The Puyang Valuation Report was prepared by the Asset Valuer and concluded by adopting cost method (asset-based method). As confirmed by the Asset Valuer, the Asset Valuer has considered the three generally accepted business enterprise appraisal approaches to value, namely, income method, market method and cost method (asset-based method). Upon our further enquiry with the Asset Valuer, we understood that:

- (i) market approach refers to the valuation method whereby the value of the valuation target is determined by comparing the valuation target with comparable listed companies or comparable transaction cases. The use of market approach requires (1) an active market with substantial amount of market reference and comparable indicators with those of the appraisee; and (2) parameters are able to obtain and quantify. Having considered the lack of comparable listed entities and transactions in the market, the Asset Valuer considered that market approach is not applicable for the Puyang Valuation.
- (ii) under income approach, the Asset Valuer considers the assets' expected profitability, which is able to reflect the overall value of the enterprise. Puyang CNBM Photovoltaic Materials satisfies the prerequisites of: going concern assumption; future economic benefit to be determined; and stable correlation between shareholders' equity and enterprise operating income. Income approach is applicable for the Puyang Valuation.
- (iii) under cost method (asset-based method), the value of identifiable assets and liabilities of Puyang CNBM Photovoltaic Materials are considered when concluding the Puyang Valuation. As the appraised assets in the Puyang Valuation are in continuous state of use or presumed to be in continuous state of use, with sufficient historical information to support the Puyang Valuation under cost approach (asset-based approach), cost approach (asset-based approach) is applicable for the Puyang Valuation.

LETTER FROM GRAM CAPITAL

We noted from the Puyang Valuation Report that, despite both income approach and cost approach (asset-based approach) are applicable for the valuation, the Asset Valuer considered that although the business scale and net income of Puyang risen steadily in 2021, the judgement on the time and speed of the recovery and the future profitability of Puyang CNBM Photovoltaic Materials is still uncertain due to limited data and information obtained, as such, the Asset Valuer rejected the result of income approach and adopted the results of costs approach (asset-based approach) when concluding the Puyang Valuation.

Having considered that (i) the Puyang Valuation Report were prepared by the Asset Valuer in accordance with various requirements or standards; (ii) the Asset Valuer considered the fundamental valuation approaches before rejecting the use of market approach; (iii) the aforesaid rationale of the Asset Valuer in selecting cost approach (asset-based approach) over income approach despite both approaches are applicable to the Puyang Valuation, we are of the view that the adoption of cost approach (asset-based approach) for the Puyang Valuation is fair and reasonable and we did not consider other approaches to assess the Puyang Valuation.

In arriving at the Puyang Valuation, the Asset Valuer categorised the assets and liabilities of Puyang CNBM Photovoltaic Materials into (1) current assets; (2) equipment; (3) building and structures; (4) projects under construction; (5) intangible assets (including land use rights); (6) other non-current assets (including deferred tax assets); and (7) liabilities.

- (1) **Current assets:** the book value and appraisal value of Puyang CNBM Photovoltaic Materials' current assets were approximately RMB176.4 million and RMB193.5 million respectively as at the Audit Valuation Reference Date, representing an appreciation of approximately RMB17.1 million. The increase in appraisal value of current assets as compared to its book value was primarily due to the appreciation of the value of raw materials (included in inventories).

We noted from the Puyang Valuation Report that the Asset Valuer took into account the then selling price and the estimated relevant costs of the inventories in assessing the appraisal value of inventories. We obtained an illustration of the valuation process for a type of raw material and noted that the Asset Valuer had (i) obtained a detailed list of Puyang CNBM Photovoltaic Materials' current assets and Puyang CNBM Photovoltaic Materials' general ledger to cross-check the name and quantity of the current assets to assess the completeness and accuracy of Puyang CNBM Photovoltaic Materials' record; (ii) conducted sampling check (with sample size no less than 60% in terms of total value and no less than 40% in terms of quantity) on inventories to examined the condition of the inventories and verified the quantity of each type of inventories; and (iii) calculated the appraisal value based on the verified quantity, the then selling price and the estimated relevant costs.

LETTER FROM GRAM CAPITAL

- (2) **Equipment:** the book value and appraisal value of Puyang CNBM Photovoltaic Materials' equipment were approximately RMB323.0 million and RMB323.5 million respectively as at the Audit Valuation Reference Date, representing an appreciation of approximately RMB0.5 million. Puyang CNBM Photovoltaic Materials' equipment primarily consist of machineries and the aforesaid appreciation in value of Puyang CNBM Photovoltaic Materials' equipment was mainly due to the increase in appraisal value of machineries.

We noted from the Puyang Valuation Report that the Asset Valuer adopted the replacement cost method in assessing the appraisal value of equipment, which took into account the current status of each equipment and the costs to be incurred to replace such asset in its current status. The Asset Valuer considered the market price for the same equipment or equipment with same functionality (based on the Asset Valuer's interview with the relevant manufacturer or retailer or the quoted price from relevant manufacturer or retailer), the costs associated with replacing such equipment (such as transportation costs, installation costs, inspection costs and relevant cost of capital), adjusted by the newness rate of the relevant equipment. The newness rate was determined with reference to the condition of each equipment based on the Asset Valuer's physical inspection and the estimated remaining useful life of each equipment.

- (3) **Buildings and structures:** the book value and appraisal value of Puyang CNBM Photovoltaic Materials' buildings and structures were approximately RMB157.6 million and RMB159.8 million respectively as at the Audit Valuation Reference Date, representing an appreciation of approximately RMB2.2 million.

We noted from the Puyang Valuation Report that the Asset Valuer adopted the replacement cost method in assessing the appraisal value of buildings and structures, which took into account the current status of each building and structure and the cost to replace or reconstruct such building or structure in its current status. The Asset Valuer determined costs per square meter based on the material, labour and machinery costs at the time when the relevant building or structure were constructed and the cost of capital required to replace or reconstruct such building or structure, adjusted by the newness rate of each building or structure. The newness rate was determined with reference to the condition of each building or structure based on the Asset Valuer's physical inspection and the estimated remaining useful life of each building or structure.

- (4) **Projects under construction:** the book value of Puyang CNBM Photovoltaic Materials' projects under construction was approximately RMB2.5 million as at the Audit Valuation Reference Date, and the appraisal value was the same as the book value as at the Audit Valuation Reference Date.

LETTER FROM GRAM CAPITAL

We noted from the Puyang Valuation Report that the Asset Valuer verified the construction progress and assessed the economic depreciation value of the projects based on the replacement costs, physical depreciation value and functionality depreciation value in determining the appraisal value of the projects under construction.

- (5) **Intangible assets (including land use rights):** the book value and appraisal value of Puyang CNBM Photovoltaic Materials' intangible assets were approximately RMB117.4 million and RMB143.6 million respectively, representing an appreciation of approximately RMB26.2 million, which was due to the increase in appraisal value of land use rights.

We noted from the Puyang Valuation Report that the Asset Valuer verified the detailed list of the land use rights, performed market research on the market price of similar lands and performed physical inspection. The Asset Valuer adopted the base price coefficient correlation approach and the cost approach and taken the average of the results from both approaches in determining appraisal value of the land use rights. Under base price coefficient correlation approach, the Asset Valuer considered various factors such as land usage, road and utility accessibility, regional infrastructure level, environmental status; and under cost approach, the Asset Valuer determined the appraisal value of the land use rights based on the land acquisition costs, relevant taxes, land development costs, expected investment interests, expected investment return and expected land appreciation value.

- (6) **Other non-current assets (including deferred tax assets):** the book value and appraisal value of Puyang CNBM Photovoltaic Materials' other non-current assets (including deferred tax assets) were approximately RMB0.6 million and RMB0.5 million respectively, representing a depreciation of approximately RMB0.1 million, which was due to the decrease in appraisal value of deferred tax assets.

We noted from the Puyang Valuation Report that prior to assessing the appraisal value of other non-current assets, the Asset Valuer (i) understood the nature and status of the other non-current assets; and (ii) performed verification work, on a sampling basis, on certain accounting entries to ensure the accuracy of the book value of other non-current assets. The decrease in appraisal value of deferred tax assets represents the tax effect of the reassessment of risk of loss associated with Puyang CNBM Photovoltaic Materials' other receivables and inventories.

- (7) **Liabilities:** the book value of liabilities was approximately RMB496.4 million as at the Audit Valuation Reference Date, and the appraisal value was the same as the book value as at the Audit Valuation Reference Date.

LETTER FROM GRAM CAPITAL

We noted from the Puyang Valuation Report that prior to assessing the appraisal value of liabilities, the Asset Valuer (i) understood the nature and status of liabilities; and (ii) performed verification work, on a sampling basis, on certain accounting entries to ensure the accuracy of the book value of liabilities.

During our discussion with the Asset Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Puyang Valuation Report.

Having considered our independent work performed on the Puyang Valuation Report and that the Puyang Consideration of RMB326,885,000 equals to the Puyang Valuation as at 31 December 2021, we are of the view that the Puyang Consideration is fair and reasonable.

Payment method and handover

- (i) **The first instalment:** Yaohua Group shall pay 10% of the Puyang Consideration to the Company within 15 working days from the effective date of the Puyang CNBM Photovoltaic Materials Share Transfer Agreement. Within 7 working days after the payment by Yaohua Group, the Company shall transfer its 100% equity interest in Puyang CNBM Photovoltaic Materials to Yaohua Group (such date will be designated as the Registration Completion Date).
- (ii) **The second instalment:** Yaohua Group shall pay 40% of the Puyang Consideration to the Company before 31 December 2022. After this payment, the accumulated payment shall be 50% of the Puyang Consideration.
- (iii) **The third instalment:** Yaohua Group shall pay the remaining Puyang Consideration to the Company before 30 June 2023.

LETTER FROM GRAM CAPITAL

We noted that the above payment structure is the same with the payment structure of the Acquisition.

The Handover Completion Date for the Share Transfer of Puyang CNBM Photovoltaic Materials will be designated as the end of the preceding month the end of or the month (to be determined by Yaohua Group and the Company through negotiation) of the Registration Completion Date of Puyang CNBM Photovoltaic Materials. Since the Registration Completion Date of Puyang CNBM Photovoltaic Materials, Yaohua Group and its authorized persons will be entitled to take over Puyang CNBM Photovoltaic Materials, and be entitled to carry out production and operation activities or other disposals through Puyang CNBM Photovoltaic Materials as the shareholder. At the same time, the Company and Yaohua Group will appoint an audit institution to audit the financial position of Puyang CNBM Photovoltaic Materials for the period from 31 December 2021 to the Handover Completion Date and issue an audit report accordingly. Upon the completion of the relevant handover matters, the Company, Yaohua Group and Puyang CNBM Photovoltaic Materials will jointly sign a handover agreement. The profits and losses realized by Puyang CNBM Photovoltaic Materials after the Audit Valuation Reference Date shall be borne or enjoyed by Puyang CNBM Photovoltaic Materials and indirectly borne or enjoyed by Yaohua Group.

Taking into account the above principal terms of the Disposal, we consider that the terms of the Disposal are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

Possible financial effects of the Disposal

With reference to the Board Letter, upon completion of the Disposal, Puyang CNBM Photovoltaic Materials will cease to be a subsidiary of the Company and the results and assets and liabilities of Puyang CNBM Photovoltaic Materials will no longer be consolidated into the consolidated financial statements of the Group.

With reference to the Company's third quarterly report for the nine months ended 30 September 2022, the unaudited total equity attributable to owners of the Company was approximately RMB4,096 million as at 30 September 2022. As confirmed by the Directors, the Company expects to realize a gain of approximately RMB39 million (subject to audit) upon completion of the Disposal and the Disposal would increase the material change in total equity attributable to owners of the Company.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Disposal.

LETTER FROM GRAM CAPITAL

Recommendation on the Disposal

Having taken into account that above factors and reasons, we are of the opinion that (i) although the Disposal is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Disposal are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the Third EGM to approve the Disposal and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* for identification purpose only

ASSET VALUATION REPORT

**ON THE VALUE OF ALL EQUITY INTERESTS IN
QINHUANGDAO NORTH GLASS CO., LTD.
INVOLVED IN THE PROPOSED TRANSFER OF EQUITY BY
CHINA YAOHUA GLASS GROUP CORPORATION CO., LTD.**

Jing Xin Ping Bao Zi [2022] No.197

Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd. was engaged by China Yaohua Glass Group Corporation Co., Ltd. to appraise the value of all equity interests in Qinghuangdao North Glass Co., Ltd. involved in the proposed transfer of equity of Qinghuangdao North Glass Co., Ltd. held by China Yaohua Glass Group Corporation Co., Ltd. to Luoyang Glass Company Limited*, by way of adopting the cost approach (asset-based approach) and the income approach and carrying out necessary valuation procedures in accordance with the laws, administrative regulations and asset valuation standards while adhering to the principles of independence, objectivity and impartiality.

Details of the asset valuation are reported as follows:

CHAPTER I BASIC INFORMATION

I. The client, appraised entity and other users of the valuation report

(I) Overview of the client

Name	:	China Yaohua Glass Group Corporation Co., Ltd.
Registered capital	:	RMB1,276,080,600
Type	:	Other limited liability company
Legal representative	:	Lv Yingcheng
Address	:	No. 61, Xigang North Road, Haigang District, Qinhuangdao City, Hebei Province
Duration of operation	:	21 September 1988 to 26 June 2031
Scope of business	:	the sales and warehousing of glass and glass products, relevant mineral products and chemical products (excluding hazardous chemicals, precursor chemicals and monitored and controlled chemicals); import and export business (excluding goods that are subject to the state-run trade administration, application shall be made in accordance with the relevant state requirements for the import and export of goods that are subject to quotas and license); technical consultation and technical services related to the company.

(II) Overview of the appraised entity

Name	:	Qinhuangdao North Glass Co., Ltd.
Registered capital	:	RMB643,903,700
Type	:	Other limited liability company
Legal Representative	:	Zhang Rong
Address	:	No. 61, Xigang North Road, Haigang District, Qinhuangdao City
Duration of operation	:	20 December 1996 to open tenor
Scope of business	:	general business projects (except for prohibited and licensed business in the project); production and sales of glass and its products, refractory materials and ceramic products; import and export of goods and technologies; stevedoring services.

1. Company profile and shareholding structure

Qinhuangdao North Glass Co., Ltd. (formerly known as Qinhuangdao North Glass Group Co., Ltd.), jointly owned by Luoyang Glass Company Limited* and China Yaohua Glass Group Corporation Co., Ltd., is located in the northern industrial zone of Qinhuangdao City.

The Company currently has two float glass production lines, 500t/d and 600t/d, mainly producing colored glass. The 500t/d production line was stopped for cold repair in December 2018 and has yet to be in normal production. The 600t/d production line has an annual output of more than 3.4 million heavy boxes, which can produce glass with a thickness of 3.2mm-10mm, a plate width of 3,660*2,440, 3,660*2,140, 2,140*1,650, 3,300*2,140, 3,300*2,440, 2,440*1,830, etc. The main products are tea glass, tea film, dark gray glass, dark gray film and other color float glass. The products are suitable for curtain wall, hollow, tempering, mirror, doubling, household appliance panel, construction, decoration and other fields. They are sold to North China, Northeast, South China, Northwest and other places, and are exported to Southeast Asia, South America, Africa and many other countries and regions.

Qinhuangdao North Glass Co., Ltd. was established in 1996 with a registered capital of RMB30 million, and its shareholder is the State-owned Assets Supervision & Administration Commission of the People's Government of Qinhuangdao City. Its scope of business covers manufacture and export of float glass, refractory materials, civil mirrors, lens, tempering, coating, insulating laminated glass, automobile lampshades, automobile lamp assemblies, moulds, optical fibres, optical cables, ceramics and utensils; import of raw materials and fuels, machinery and equipment, instruments and spare parts required for the production and scientific research of the Company.

In August 2008, it was resolved at the general meeting that Fame Talent Holdings Limited increased its capital in Qinhuangdao North Glass Co., Ltd. by RMB282,873,700, and the registered capital of Qinhuangdao North Glass Co., Ltd. increased to RMB312,873,700. Upon such changes in registered capital, the shareholding structure of Qinhuangdao North Glass Co., Ltd. is as follows:

Name of shareholder	Capital contribution (RMB'0,000)	Percentage of capital contribution (%)
Fame Talent Holdings Limited	3,000.00	9.59
State-owned Assets Supervision & Administration Commission of the People's Government of Qinhuangdao City	28,287.37	90.41
Total	31,287.37	100.00

In September 2011, it was resolved at the general meeting that Fame Talent Holdings Limited and the State-owned Assets Supervision & Administration Commission of the People's Government of Qinhuangdao City transferred their equity interests in Qinhuangdao North Glass Co., Ltd. to China Yaohua Glass Group Corporation Co., Ltd.. Upon such changes in equity interests, the shareholding structure of Qinhuangdao North Glass Co., Ltd. is as follows:

Name of shareholder	Capital contribution (RMB'0,000)	Percentage of capital contribution (%)
China Yaohua Glass Group Corporation Co., Ltd.	31,287.37	100.00
Total	31,287.37	100.00

In March 2015, the legal representative of Qinhuangdao North Glass Co., Ltd. was changed from Teng Fuquan to Xu Ning, and the place of business was changed from Xianfeng Road, Haigang District, Qinhuangdao City to Haigang District, Qinhuangdao City, Hebei Province.

In June 2016, the legal representative of Qinhuangdao North Glass Co., Ltd. was changed from Xu Ning to Zhao Bing.

In April 2017, the legal representative of Qinhuangdao North Glass Co., Ltd. was changed from Qinhuangdao North Glass Group Co., Ltd. to Qinhuangdao North Glass Co., Ltd..

In August 2017, Qinhuangdao North Glass Co., Ltd. increased its registered capital to RMB643,903,700.

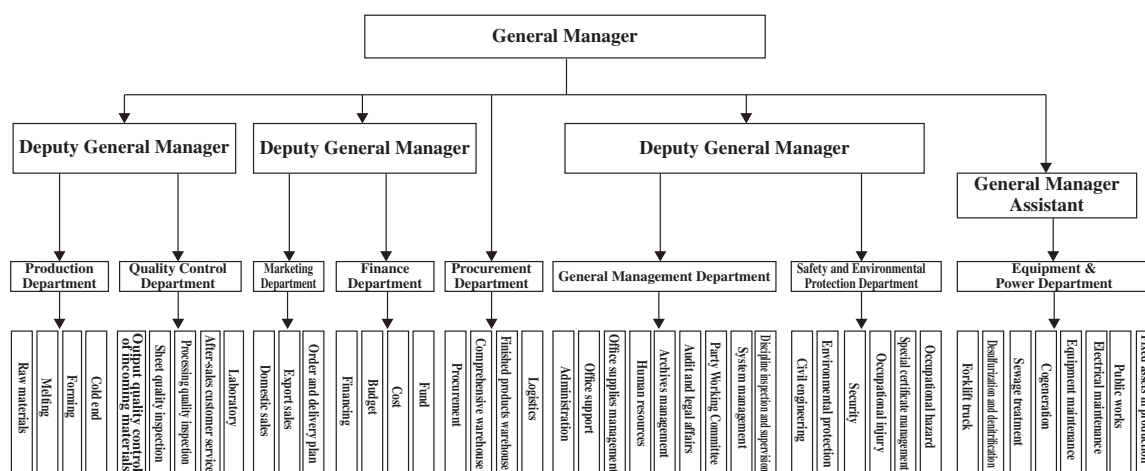
In January 2018, the legal representative of Qinhuangdao North Glass Co., Ltd. was changed from Zhao Bing to Fan Guoxin.

In September 2020, the legal representative of Qinhuangdao North Glass Co., Ltd. was changed from Fan Guoxin to Chen Xing.

In August 2021, it was resolved at the general meeting that China Yaohua Glass Group Corporation Co., Ltd. transferred its 60% equity interests in Qinhuangdao North Glass Co., Ltd. to Luoyang Glass Company Limited. The legal representative of the Company was changed from Chen Xing to Zhang Rong. Upon such changes in equity interests, the shareholding structure of Qinhuangdao North Glass Co., Ltd., as of the valuation benchmark date, is as follows:

Name of shareholder	Capital contribution (RMB'0,000)	Percentage of capital contribution (%)
China Yaohua Glass Group Corporation Co., Ltd. (中國耀華玻璃集團有限公司)	25,756.15	40.00
Luoyang Glass Company Limited	38,634.22	60.00
Total	64,390.37	100.00

2. Organizational chart



3. Main assets

The main assets of the company are current assets and non-current assets, among which current assets include monetary funds, accounts receivable, prepayment, other receivables, inventories, etc., and non-current assets include fixed assets, projects under construction, intangible assets, long-term deferred expenses and other non-current assets.

4. *Main products and production and sales*

As of the valuation benchmark date, Qinhuangdao North Glass Co., Ltd. has two production lines, namely one 500t/d float glass production line which is currently suspended pending renovation; and the other 600t/d float glass production line under operation, which can produce glass with a thickness of 3.2mm-10mm, the main products of which are coloured glass and coloured coated glass. The products are widely used in curtain wall, hollow, tempering, mirror, doubling, household appliance panel, construction, decoration and other fields, especially for European grey glass and dark grey glass which are exported to Southeast Asia, South America, Africa and many other countries and regions.

The company's sales volume of float glass for 2019 was 5,886,779.71 heavy boxes, with sales revenue of RMB452,240,100. The company's sales volume of float glass for 2020 was 5,328,637.72 heavy boxes, with sales revenue of RMB485,549,100. The company's sales volume of float glass for 2021 was 3,553,635.24 heavy boxes, with sales revenue of RMB465,912,400.

5. *The assets, liabilities and operating conditions of the company in the past three years***Assets and Liabilities***Units: RMB*

Item	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
Total current assets	177,457,151.64	613,319,666.17	532,498,585.39
Long-term equity investment	–	109,873,531.00	91,161,490.42
Fixed assets	147,877,848.98	156,116,637.78	151,899,856.68
Projects under construction	32,049,226.14	29,437,896.38	57,867,036.34
Intangible assets	129,915,960.89	20,389,828.08	20,936,461.08
Long-term deferred expenses	1,083,333.48	3,683,333.08	6,283,333.38
Other non-current assets	70,000,000.00	–	2,000,850.76
Total non-current assets	380,926,369.49	319,501,226.70	330,149,028.66
Total assets	558,383,521.13	932,820,892.87	862,647,614.05
Total current liabilities	211,896,716.45	478,680,110.73	702,418,659.31
Total non-current liabilities	18,612,494.26	252,387,120.22	68,829,498.26
Total liabilities	230,509,210.71	731,067,230.95	771,248,157.57
Total owners' equity	327,874,310.42	201,753,661.92	91,399,456.48
Total liabilities and owners' equity	558,383,521.13	932,820,892.87	862,647,614.05

Income Statement

Units: RMB

Item	2021	2020	2019
Total operating income	465,912,433.35	485,549,082.70	452,240,143.44
Including: Operating costs	294,205,730.25	397,503,976.74	447,948,099.25
Business tax and surcharge	7,543,678.16	6,003,129.77	4,741,941.75
Selling expenses	704,778.26	9,134,114.02	14,669,860.62
Administration expenses	22,160,012.46	14,623,814.90	6,165,280.94
R&D Expenses	2,136,369.41	–	882,972.17
Financial expenses	18,554,192.18	27,188,686.56	12,724,003.58
Operating profit (“-” for loss)	126,464,558.06	39,225,310.64	-184,745,408.37
Add: Non-operating income	57,784.82	36,743,160.19	28,739,539.63
Less: Non-operating expenses	401,694.38	2,781,819.30	80,000.00
Total profit (“-” for total loss)	126,120,648.50	73,186,651.53	-156,085,868.74
Less: Income tax expenses	–	–	–
Net profit (“-” for net loss)	126,120,648.50	73,186,651.53	-156,085,868.74

The balance sheet dated 31 December 2019 and the 2019 income statement were audited by WUYIGE Certified Public Accountants LLP and the WUYIGE Shenzi [2020] No. 2-00468 unqualified audit report was issued. The balance sheet dated 31 December 2020 and the 2020 profit statement were audited by WUYIGE Certified Public Accountants LLP and the WUYIGE Shenzi [2021] No. 2-00525 unqualified audit report was issued. The balance sheet dated 31 December 2021 and the 2021 profit statement were audited by WUYIGE Certified Public Accountants LLP and the WUYIGE Shenzi [2022] No. 2-00510 unqualified audit report was issued.

(III) Relationship between the client and the economic agent

The client is a shareholder of the appraised entity.

(IV) Other users of the valuation report***1. Other users of the valuation report stipulated in the asset valuation contract***

Other users of the valuation report are not stipulated in the asset valuation engagement contract.

2. Users of the Asset Valuation Report stipulated by laws and administrative regulations

Users of the Asset Valuation Report stipulated by laws and administrative regulations shall comply with the relevant laws and administrative regulations.

II. Purpose of valuation

China Yaohua Glass Group Corporation Co., Ltd. intended to transfer shares held in Qinhuangdao North Glass Co., Ltd. to Luoyang Glass Co., Ltd.. As a result, China Yaohua Glass Group Corporation Co., Ltd. specially engaged Zhongjing Minoxin (Beijing) Assets Appraisal Co., Ltd. to evaluate the value of total shareholders' equity of Qinhuangdao North Glass Co., Ltd. involved in the economic activity, so as to provide the client with a reference basis for the value of equity transfer.

III. Target and scope of valuation

- (I) *The valuation target is the total shareholders' equity of Qinhuangdao North Glass Co., Ltd..*
- (II) *The scope of valuation is comprised of all assets and liabilities of Qinhuangdao North Glass Co., Ltd., including current assets, fixed assets, project under construction, intangible assets, long-term deferred expenses and other non-current assets, current liabilities and non-current liabilities. As at the valuation benchmark date, the total book value of assets amounted to RMB558,383,500, the total liabilities amounted to RMB230,509,200, and the net assets amounted to RMB327,874,300.*

Unit: RMB0'000

Item	Book value
Current assets	17,745.72
Non-current assets	38,092.64
Fixed assets	14,787.78
Project under construction	3,204.92
Intangible assets	12,991.60
Long-term deferred expenses	108.33
Other non-current assets	7,000.00
Total assets	55,838.35
Current liabilities	21,189.67
Non-current liabilities	1,861.25
Total liabilities	23,050.92
Net assets (owner's equity)	32,787.43

The assets and liabilities included in the evaluation scope have been audited by WUYIGE Certified Public Accountants LLP and the WUYIGE Shenzi [2022] No. 2-00510 unqualified audit report has been issued.

- (III) *The entrusted valuation target and evaluation scope are consistent with the valuation target and evaluation scope involved in the economic behavior.*

(IV) Main physical assets

The physical assets of the appraised entity include inventory, equipment, building and structure and project under construction. The physical assets are as follows:

1. Inventory

The inventory of the appraised entity includes raw materials, finished products (commodities in stock) and goods in transit. The raw materials are mainly the main and auxiliary raw materials purchased by the enterprise for the production of glass, which are stored in various specialized warehouses. The inventory of materials of the enterprise was accurate upon inspection. The commodities in stock are glass of various specifications, with a total book value of 735,306.81 heavy boxes, of which 242,895.83 heavy boxes are stored in the company's warehouse on Xigang North Road, Haigang District, with a book value of RMB22,678,362.02, and another 492,410.98 heavy boxes are stored in the company's leased warehouses off-site, with a book value of RMB21,429,319.21. The company's existing inventory on Xigang North Road, Haigang District is normal sales product, while the inventory stored in an off-site leased warehouse, that is, book LKC glass, has been sold by the warehouse lessor on its own. Since the sale was not approved by the appraised entity, although the product has been taken away by the customer, was actually not settled and was listed on the finished product account. Hence, the appraised entity has sued the off-site warehouse lessor regarding this matter. A full provision for impairment of inventories has been made.

2. *Equipment*

The equipment fixed assets included in the evaluation are mainly production equipment used to produce relevant colored glass, veneer glass, coated glass, float glass, and float glass products, specially including: 600T/D energy-saving color float glass production line core equipment, control equipment, power distribution equipment and other auxiliary equipment, waste heat boilers, steam turbines, forklift truck, single beam cranes, air compressors, power transmission and transformation equipment, various dry-type transformers, test and testing equipment, etc.

The vehicles mainly include a Buick commercial vehicle and a Nissan multi-purpose truck.

Electronic equipment includes, air conditioners, printers, computers, projectors, security monitoring and all kinds of office furniture, etc..

As at the valuation benchmark date, the fixed assets and equipment included in the evaluation scope can be used normally.

3. *Buildings and structures*

The buildings and structures included in the scope of evaluation are located in Qinhuangdao North Industrial Park, No. 61, Xigang North Road, Haigang District, Qinhuangdao City, being the plants of the two production lines and their auxiliary housing facilities.

(1) Buildings

① Plant of 600T/d production line

The plant of the 600T/d energy-saving colored float glass production line was put into use in October 2010, with a design life of 50 years, a secondary structure level, and a 7-degree seismic fortification. The plant is divided into melting section, forming section and annealing section according to the technological process, with a total construction area of 16,305.38 m². Overview of each section of the plant is as follows:

Melting section: one ground floor and one underground floor, with building dimensions of 74.9m*39m; the structure type includes reinforced concrete frame-bent structure/portal rigid frame structure; 20.625m above ground, 39m span with 1 main span and column spacing of 6m; the inner wall is made of 240 clay hollow bricks, and the outer wall is made of double layer coloured profiled sheets filled with 50 thick glass wool; the building foundation is reinforced concrete integral raft, with an integral structure of cast-in-site reinforced concrete cantilever retaining wall (strength of C30), building ground of cement mortar floor, roofing of 0.96-thick galvanized plate, and interior wall plastering steel structure partially coated with anti-rust paint and ready mixed paint; reinforced concrete casting sections are all plastered, with outer wall painted; plastic steel windows, iron roller shutter; high and low voltage transformer and distribution, centralised drainage, firefighting and lighting.

Forming section: one ground floor and one underground floor, with building dimensions of 66.5m*(6.5+24+9)m; the structure type includes reinforced concrete frame-bent structure/portal rigid frame structure; 11.2m above ground, 14m in total (2.8m below ground), 6.5m, 24m and 9m spans with 1 main span and column spacing of 6m; the inner wall is made of 240 clay hollow bricks, and the outer wall is made of double layer coloured profiled sheets filled with 50 thick glass wool; the building foundation is reinforced concrete integral raft/reinforced concrete isolated footing and strip footing, cement mortar floor (tile floors in operating rooms), roofing of 0.96-thick galvanized plate, and interior wall plastering steel structure partially coated with anti-rust paint and ready mixed paint; reinforced concrete casting sections are all plastered with outer wall painted; plastic steel windows, iron roller shutter; high and low voltage transformer and distribution, centralised drainage, firefighting and lighting.

Annealing and cutting section: one ground floor with building dimension of 174m*35m; the structure type includes reinforced concrete frame-bent structure/portal rigid frame structure; 9.75m above ground, 9.75m in total, 35m, 15m, with 1 main span, and column spacing of 6m; the inner wall is made of 240 clay hollow bricks, and the outer wall is made of double layer coloured profiled sheets filled with 50 thick glass wool; the building foundation is reinforced concrete integral raft/reinforced concrete isolated footing and strip footing, cement mortar floor (tile floors in operating rooms), roofing of 0.96-thick galvanized plate, and interior wall plastering steel structure partially coated with anti-rust paint and ready mixed paint; reinforced concrete casting sections are all plastered with outer wall painted; plastic steel windows, iron roller shutter; high and low voltage transformer and distribution, centralised drainage, firefighting and lighting.

② 500T/d on-line coating production line

The completion time, layout, structure and building area of the 500T/d production line plant are exactly the same as those of the 600T/d production line plant. For details of its construction, please refer to the 600T/d production line plant.

The auxiliary rooms of the 500T/d online coating production line and the 600T/d online coating production line are finished product warehouse, raw material system, hoisting warehouse, nitrogen station, air compressor station, office building, canteen, etc., with a total construction area of 32,247.06 square meters.

(2) Structures

There is a total of 60 structures within the scope of evaluation, including distribution material system engineering, chimneys, smoke towers, water towers, belt corridors, desulfurization and denitrification and dust removal closures, broken glass yards, fences, roads and other projects, propaganda windows of office buildings and warehouses that can't apply for housing title certificates etc..

As of the valuation benchmark date, all housing and buildings of Qinhuangdao North Glass Co., Ltd. have been issued with Real Property Ownership Certificate, and the land occupied was used for industrial purposes. The type of the right of use was transfer, with a termination date of 29 September 2056.

4. *Project under construction*

The project under construction included in the evaluation is the project under construction of Qinhuangdao North Glass Co., Ltd., the equipment installation project is mainly the project under construction of the enterprise's 500t/d production line due to the suspension of production and cold repair, with a total of 186 items. The appraised entity originally planned to carry out cold repair and renovation of the production line. Subsequently, it was decided to suspend the cold repair due to the strategic adjustment of the enterprise group, with no resumption time clarified.

As of the valuation benchmark date, there were no other rights such as mortgage and lease over the above assets of the appraised entity.

(V) *Intangible assets*

The scope of evaluation of the intangible assets includes three land use rights belonging to Qinhuangdao North Glass Co., Ltd., with an area of 397,714.69 m², and the right to use the Kingdee financial software.

The land (Ji (2021) Qinhuangdao Real Estate Ownership No. 0074617) (冀(2021) 秦皇島市不動產權第0074617號) has a recorded area of 133,441.52 m², the licensed land user is Qinhuangdao North Glass Co., Ltd.. According to the Statement of the North Company and the Great Wall Company on a Land History Issue (《北方公司與長城公司關於一宗土地歷史遺留問題的情況說明》) provided by the appraised entity, the land is actually shared by Qinhuangdao North Glass Co., Ltd. and Qinhuangdao Great Wall Glass Industry Co., Ltd.. On 8 January 2020, the Qinhuangdao City Surveying and Mapping Brigade conducted surveying and mapping of the portion of land owned by Qinhuangdao Great Wall Glass Industry Co., Ltd., and the map issued by the survey showed that its area was 10,409.11 m². Therefore, the actual land area owned by Qinhuangdao North Glass Co., Ltd. is 123,032.40 m². As of the valuation benchmark date, the separation procedures of the land owned by appraised entity and the land owned by Qinhuangdao Great Wall Glass Industry Co., Ltd. were in progress.

1. *Nature of land right*

According to the State-owned land use certificate (《國有土地使用證》) of the valuation target, the land ownership of the valuation target belongs to the State, and the person owning land-use right of Dong Fang Guo Yong (Basuo) Zi No. 430 (東方國用(八所)字第430號) is Qinhuangdao North Glass Group Co., Ltd. (the former name of the appraised entity). As of the valuation benchmark date, the land use certificate has not been registered.

2. *Way of obtaining land use rights*

According to the Certificate for the Use of State-owned Land (《國有土地使用證》) and the Real Property Ownership Certificate of the valuation target, the land use rights were obtained by the client by way of transfer.

3. *Land usage term*

Title certificate number	Land termination date	Remaining years set in the valuation
Ji (2021) Qinhuangdao Real Estate Ownership No. 0074617 (冀(2021)秦皇島市不動產權第0074617號)	29 September 2056	34.77 years
Dong Fang Guo Yong (Basuo) Zi No. 430 (東方國用(八所)字第430號)	8 February 2061	39.16 years
Ji [2021] Qin Kai Real Estate Ownership No. 0001563 (冀(2021)秦開不動產權第0001563號)	1 April 2071	49.25 years

4. *Other rights on land*

As of the valuation benchmark date, no mortgages had been set by the valuation target.

(VI) *Unrecorded asset included in the scope of evaluation*

No assets without book records were found in the Asset Evaluation List (《資產評估明細表》) provided by the appraised entity.

(VII) *Assets recorded in the account but without such assets in fact in the scope of evaluation*

In the Asset Evaluation List (《資產評估明細》) provided by the appraised entity, except for inventory-commodities in stock with no physical objects in the off site inventory, no other assets of which recorded in the account but without such assets in fact.

IV. Type of value and definition

Through analysis on the purpose of the evaluation and the understanding of the market conditions on which the evaluation is based, the status of the valuation target itself, etc., we judge that the asset evaluation does not have any special restrictions and requirements on the appraisal market conditions and the use conditions of the valuation target, so the market value is adopted as the value type of evaluation conclusion.

The market value is the estimated value of the appraised target on the valuation benchmark date on which the valuation target is transacted on arms length basis by the willing purchaser and the willing vendor who act sensibly without being subject to any undue influence.

V. Valuation Benchmark Date

- (1) The valuation benchmark date for this project is 31 December 2021.
- (2) The above valuation benchmark date is selected by the client considering the realization of this economic behavior.

CHAPTER II BASIS OF VALUATION**I. Basis of economic activity**

Notice on Accelerating the Integration of High-quality Float Glass and Special Glass Business Segments of Triumph Group (Kai Sheng Fa Tou Zi (2022) No. 15)

II. Basis of laws and regulations

- (1) The Asset Valuation Law of the People's Republic of China (passed at the 21st session of the Standing Committee of the 12th National People's Congress on 2 July 2016);
- (2) Measures for Financial Supervision and Administration of the Asset Valuation Sector (amended in accordance with the Decision of the Ministry of Finance on the Amendment of Two Departmental Rules including the Measures for the Practice Licensing and Supervision and Administration of Accounting Firms (Order No. 97 of the Ministry of Finance of the People's Republic of China) on 2 January 2019);
- (3) The Company Law of the People's Republic of China (amended at the 6th session of the Standing Committee of the 13th National People's Congress on 26 October 2018);

- (4) Law of the People's Republic of China on Enterprise Income Tax (amended for the second time in accordance with the Decision of the Standing Committee of the National People's Congress to Amend Four Laws Including the Electric Power Law of the People's Republic of China passed at the 7th Session of the Standing Committee of the 13th National People's Congress on 29 December 2018);
- (5) The Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value Added Tax (Order No. 65 of the Ministry of Finance and the State Administration of Taxation of the People's Republic of China, amended in accordance with the Decision on the Revision to the Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value Added Tax and the Detailed Rules for the Implementation of the Provisional Regulations on Business Tax of the People's Republic of China on 28 October 2011);
- (6) Implementation Rules of Interim Regulations on Value-Added Tax of the People's Republic of China (Order No. 691 of the State Council of the People's Republic of China, amended for the second time in accordance with the Decision of the State Council on abolishing the Provisional Regulations of the People's Republic of China on Business Tax and the Provisional Regulations of the People's Republic of China on Value-Added Tax on 19 November 2017);
- (7) The Notice on the Comprehensive Launch of the Pilot Program for the Change from Imposing Business Tax to Value-added Tax (Ministry of Finance, State Administration of Taxation, Caishui [2016] No. 36);
- (8) The Notice on Adjusting Value-Added Tax Rates (Ministry of Finance, State Administration of Taxation, Caishui [2018] No. 32);
- (9) The Announcement on the Policies in relation to Deepening Value-added Tax Reform by Ministry of Finance, State Administration of Taxation and General Administration of Customs (Announcement No. 39 of 2019 of the Ministry of Finance, State Administration of Taxation and General Administration of Customs);
- (10) The Vehicle Purchase Tax Law of the People's Republic of China (passed at the 7th session of the Standing Committee of the 13th National People's Congress on 29 December 2018);
- (11) The Announcement on Matters Relating to the Collection and Administration of Vehicle Purchase Tax (Announcement No. 26 of 2019 of the State Administration of Taxation);

- (12) The Provisions on the Criteria for Compulsory Discard of Motor Vehicles (considered and passed at the 68th Ministerial Meeting of the Ministry of Commerce on 24 August 2012);
- (13) The Enterprise State-owned Asset Law of the People's Republic of China (passed at the 5th session of the Standing Committee of the 11th National People's Congress on 28 October 2008);
- (14) The Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 709 of the State Council);
- (15) The Administrative Measures for Valuation of State-owned Assets (Order No. 91 of the State Council, amended by Order No. 732 of the State Council of the People's Republic of China);
- (16) The Supervisory and Administrative Measures of the Transactions of Enterprise State-owned Assets (Order No. 32 of SASAC and the Ministry of Finance);
- (17) The Interim Measures for the Administration of Valuation of Enterprise State-owned Assets (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC));
- (18) The Notice on Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
- (19) The Notice on Matters Concerning the Review of Valuation Report of the State-owned Assets of Enterprise (Guo Zi Chan Quan [2009] No. 941);
- (20) The Notice on Publishing the Guidelines for the Filing for Recordation of the Valuation Projects of Enterprise State-owned Assets (Guo Zi Fa Chan Quan [2013] No. 64);
- (21) Administrative Measures of the China Appraisal Society for Asset Valuation Reports (Zhong Ping Xie [2021] No. 30);
- (22) The Securities Law of the People's Republic of China (amended for the second time at the 15th Session of the Standing Committee of the 13th National People's Congress on 28 December 2019);
- (23) Guidelines on the Application of Regulatory Rules – Evaluation Category No. 1 (China Securities Regulatory Commission);

- (24) Civil Code of the People's Republic of China (passed at the 3rd session of the 13th National People's Congress on 28 May 2020);
- (25) The Law of the People's Republic of China on the Administration of Urban Real Estate (passed at the 12th Session of the Standing Committee of the 13th National People's Congress on 26 August 2019);
- (26) The Land Administration Law of the People's Republic of China (passed at the 12th Session of the Standing Committee of the 13th National People's Congress on 26 August 2019);
- (27) Interim Regulations on Urban Land Use Tax of the People's Republic of China (amended by Order No. 709 of the State Council of the PRC);
- (28) Other laws and regulations related to the valuation.

III. Basis of valuation criteria

- (1) Asset Valuation Basic Standards (Cai Zi [2017] No. 43);
- (2) Code of Professional Ethics for Assets Assessment (CAS [2017] No. 30);
- (3) Asset Valuation Practicing Standards — Asset Valuation Procedures (CAS [2018] No. 36);
- (4) Asset Valuation Practicing Standards — Asset Valuation Report (CAS [2018] No. 35);
- (5) Asset Valuation Practicing Standards — Contract on Asset Valuation Entrustment (CAS [2017] No. 33);
- (6) Asset Valuation Practicing Standards — Asset Valuation Files (CAS [2018] No. 37);
- (7) Asset Valuation Practicing Standards — Engagement of Experts and Relevant Reports (CAS [2017] No. 35);
- (8) Asset Valuation Practicing Standards — Enterprise Value (CAS [2018] No. 38);
- (9) Asset Valuation Practicing Standards — Real Property (CAS [2017] No. 38);
- (10) Asset Valuation Practicing Standards — Machinery Equipment (CAS [2017] No. 39);

- (11) The Guidelines for the Enterprise State-owned Asset Valuation Reports (CAS [2017] No. 42);
- (12) Guidelines for Business Quality Control of Asset Valuation Institutions (CAS [2017] No. 46);
- (13) Guidance on Value Type for Asset Valuation (CAS [2017] No. 47);
- (14) Guidance on Legal Ownership of Asset Valuation Target (CAS [2017] No. 48);
- (15) Asset Valuation Practicing Standards –Asset Valuation Method (CAS [2019] No. 35);
- (16) Guiding Opinions No. 8 from Asset Valuation Expert – Check and Verification in Asset Valuation (CAS [2019] No. 39);
- (17) Guiding Opinions No. 12 for Asset Valuation Expert – Measurement of Discount Rates in the Valuation of Enterprise Values by the Income Approach (CAS [2020] No. 38);
- (18) Code for Real Estate Appraisal (National Standard GB/T50291-2015);
- (19) Regulations for Valuation on Urban Land (GB/T18508-2014);
- (20) Other evaluation criteria and norms related to the evaluation.

IV. Basis of asset ownership

- (1) Real estate ownership certificate, state-owned land use certificate;
- (2) Equipment and inventory purchase invoice contract, vehicle driving license;
- (3) Enterprise Property Registration Form.

V. Pricing basis

- (1) Manual of Data and Parameters Commonly Used in Asset Appraisal;
- (2) The 2021 edition of the Mechanical and Electrical Products Global Quotation System, the 2021 edition of the Mechanical and Electrical Products Quotation Manual;

- (3) China Automobile Net, Sohu Automobile, Wanche Net, Pacific Automobile Net and other professional car price information websites;
- (4) Professional electronic equipment price information websites. such as ZOL Zhongguancun Online IT Product Quotation and IT168-IT Mainstream Information Platform on the period close to valuation benchmark date;
- (5) Notice of the People's Government of Qinhuangdao City on Issuing the Administrative Measures for the Collection of Urban Infrastructure Supporting Fees in Qinhuangdao City (Qin Cai Shui [2017] No. 3);
- (6) Qinhuangdao City Land Grading and Valuation;
- (7) Qinhuangdao Project Cost in December 2021;
- (8) Notice of the Qinhuangdao Construction Project Cost Service Centre on the Issuance of the Guidance Price of Overall Labour for Construction Projects in the First Half of 2021 (Qin Gong Fa [2021] No. 7);
- (9) The future annual income forecast data provided by the appraised enterprise, etc.;
- (10) Data provided by WIND Financial Data Terminal;
- (11) Loan prime rate (LPR) promulgated by the National Interbank Funding Center under authorization published by the People's Bank of China;
- (12) The valuation benchmark date of the appraisal entity and the audit report for the last three years;
- (13) Relevant agreements and other relevant information.

VI. Other reference information

- (1) Asset evaluation declaration form provided by the appraised entity;
- (2) Accounting statements, account books and vouchers on the valuation benchmark date provided by the appraised entity;
- (3) Explanation on Matters Related to Asset Evaluation provided by the appraised entity;
- (4) Accounting Standards for Business Enterprises issued by the Ministry of Finance.

CHAPTER III VALUATION METHODS

The valuation methods commonly used in enterprise value evaluation include income approach, market approach and cost approach (asset-based approach). In accordance with the Asset Valuation Practicing Standards — Enterprise Value, when performing any appraisal of enterprise value, the suitability of the three basic asset valuation methods, namely, the income approach, the market approach and the cost approach (asset-based approach) shall be analyzed based on the purpose of valuation, the valuation target, the type of the value, the circumstances of information collection and other relevant conditions. Then, one or more basic methods of asset evaluation should be properly selected. State-owned Assets Supervision and Administration Commission Property Rights [2006] Document No. 274 stipulates that, “As for asset evaluation projects involving corporate value, when the evaluation is based on the premise of continuous operation, in principle, two or more methods are required for evaluation and listed in the evaluation report. After a full and comprehensive analysis based on the actual situation, one of the evaluation results is determined as the use of results of the evaluation report.”

The market approach for the valuation of an enterprise refers to the valuation method whereby the value of the valuation target is determined by comparing the valuation target with comparable listed companies or comparable transaction cases. The basic condition for using the market approach is as follows: there is a relatively active market, and market cases as well as indicators and parameters comparable to the valuation target can be collected and quantified. For market approach, it is difficult to adopt market approach due to the lack of comparable transaction cases.

Although the income approach in enterprise value evaluation does not directly use the reference in the actual market to explain the current fair market value of the valuation target, it assesses the assets from the fundamental basis for determining the current fair market value which is the expected profitability of the assets. This can fully reflect the overall value of the enterprise, and its evaluation conclusions are reliable and persuasive. At the same time, the enterprise has the prerequisites for applying the income approach to evaluate: continuous operation, future income periods can be determined, and there is a stable relationship between shareholder equity and business income.

The cost approach (asset-based approach) for the valuation of an enterprise refers to the valuation method whereby the value of the valuation target is determined by reasonable valuation of identifiable on- and off-balance sheet assets and liabilities on the basis of the balance sheet of the appraised entity on the valuation benchmark date. This evaluation project can meet the conditions required by the cost approach (asset-based approach), that is, the appraised asset is in a state of continued use or is assumed to be in a state of continued use, and has available historical data. Moreover, the cost approach (asset-based approach) can meet the requirements of the value type of the evaluation.

Therefore, in view of the evaluation purpose and asset type of the evaluation, considering the role, characteristics and requirements of various evaluation methods, we adopt the cost approach (asset-based approach) and income approach for the evaluation. After analyzing and comparing the evaluation results obtained by the two methods, one of the more appropriate evaluation results is used as the evaluation conclusion.

SECTION I COST APPROACH (ASSET-BASED APPROACH)

The cost approach (asset-based approach) refers to the general term for various evaluation techniques that determine the value of the valuation target on the basis of a reasonable evaluation of the value of the assets and liabilities of the enterprise. The evaluation scope includes current assets, fixed assets, project under construction, intangible assets, long-term deferred expenses and other non-current assets, as well as current liabilities and non-current liabilities. The evaluation method mainly adopts the replacement cost approach. The specific evaluation methods for various types of assets are as follows:

I. Current assets

Current assets include monetary capital, accounts receivables, prepayments, other receivables, inventories and other current assets.

(I) Monetary capital

Monetary capital is bank deposits.

Bank deposits: check the data obtained from the statement, balance adjustment statement and letter of proof with its book value, and determine the appraised value with the verified amount.

(II) Accounts receivables

Accounts receivables include accounts receivable, prepayments and other receivables.

Accounts receivable and other receivables: carry out letter verification for continuing transactions, affiliates and large sums of money, and confirm the appraisal value with the verified book value in accordance with the letter verification; for the money that has been confirmed as loss by conclusive evidence, determine the appraisal value by zero value; for other funds, investigate the credit and operation status of the opposite parties, judge whether there is possible bad debt loss and estimate the amount of bad debt loss in combination with the account age, so as to verify the balance after deducting the estimated bad debt loss from the book value and confirm the evaluation value; for the bad debt provision, evaluate as zero since the bad debt problem has been considered in the evaluation.

Prepayments: carry out letter verification for continuing transactions, affiliates, and large sums of money, determine the appraisal value according to the value of the corresponding assets recoverable or the corresponding rights realizable bases on the letter verification; for the funds that cannot recover the corresponding assets or realize the corresponding rights, determine the appraisal value as zero.

(III) Inventory

The inventory of the evaluation includes raw materials, finished products (commodities in stock) and goods in transit.

1. Raw materials

The evaluation adopts cost approach. For the commodities recently purchased, where the turnover is relatively fast, there is no damage or backlog phenomenon, and the book price is close to the market price on the valuation benchmark date, the verified book price is multiplied by the actual quantity to determine the appraisal value.

For those which have been purchased for a long time, the current market price is added to the relevant expenses, and the actual quantity is multiplied to determine the appraisal value. For those close to being scrapped but realizable, the appraisal value is determined by the current market realizable value. If there is no realizable value, the value shall be determined as zero.

2. Finished products (commodities in stock)

For finished products (commodities in stock), the appraisal value is calculated according to the following formula (where part of the profit is determined in accordance with the sales situation):

Appraisal value = inventory quantity × ex-factory unit price without tax × [1- (all taxes + sales expenses + partial profits)/sales revenue]

3. Goods in transit

Goods in transit mainly include delivered products from the enterprise. The asset valuation professionals have reviewed the information such as warehousing and delivery list and goods supply agreement, and the verified results were consistent with that in relevant accounts, statements and documents. The valuation of the goods in transit was conducted in accordance with the valuation method for finished goods (commodities in stock).

(IV) Other current assets

Other current assets are input VAT that has not yet been deducted and deferred expenses, and the appraiser determines the appraisal value based on the verified book value.

II. Buildings and structures

According to Asset Appraisal Practicing Standards-Real Estate, Code for Real Estate Appraisal (National Standard of the People's Republic of China GB/T 50291-2015) (system for determining real estate appraisal) and the Standards for Basic Terminology of Real Estate Appraisal (GB/T 50899-2013) (description for determining real estate appraisal methods), the commonly used methods of real estate appraisal mainly include market comparison approach, income approach and cost approach. The choice of valuation method should be based on the purpose of valuation combined with the specific characteristics of the valuation target, the surrounding market conditions, and the applicability and operability of the valuation method, and comprehensively considering the above in order to select an appropriate valuation method.

The target of this evaluation is mainly for the self-use of the appraised entity. There are relatively few transaction examples of similar housing buildings and structures and without sufficient market basis, at the same time income cannot be generated separately, so it is not appropriate to use the market approach and the income approach for evaluation. Therefore, the replacement cost approach is adopted for evaluation.

The cost approach is to estimate the valuation target and reasonable value of the valuation target by obtaining the replacement costs of the appraisal target on the valuation benchmark date and deducting depreciation. The replacement costs is the normal value of using the building materials and construction technology on the valuation benchmark date to rebuild a new state building with the same function and utility as the valuation target at the price level on the valuation benchmark date.

The appraised value is derived from: appraisal value = replacement costs \times newness rate

Where: replacement costs = construction and installation cost + preliminary expenses and other expenses + cost of capital – deductible input value-added tax

(I) Determination of replacement costs

1. Determination of construction and installation cost

The construction and installation cost is generally calculated and determined by the project settlement adjustment method, analogy method and index adjustment method.

Since the appraised entity has provided the complete final account data of the valuation target, the construction and installation cost of this evaluation is determined by the reorganization project settlement adjustment method.

Reconstruction of works settlement adjustment method is the adjustment of the (pre-) final account of original project based on the project completion data, drawings and final account data of the building to be appraised, that is, to determine the construction cost based on the direct cost of the (pre-) final account of the original project, by adjusting the price according to the prevailing local construction materials, labour, machinery unit price, and then comprehensively calculating the cost to the price level of the valuation benchmark date.

2. *Preliminary and other cost*

The preliminary and other cost of buildings consist of two parts, namely, the cost calculated by the proportion of project and the gross floor area, while the preliminary and other cost of structures shall be the part of the cost calculated by the proportion of project. Pursuant to the Notice on Further Relaxation on Professional Services Charges for Construction Projects (Fa Gai Jia Ge [2015] No.299) issued by the National Development and Reform Commission, the preliminary cost is determined according to experience with reference to the market situation.

3. *Capital cost*

Capital cost for this assessment is calculated based on the reasonable construction period of the construction project (i.e. the cost of raising funds or the opportunity cost of capital occupied by the buildings (structures) during the normal construction period, which is based on the sum of construction and installation costs and preliminary and other costs), while assuming that the investment in the buildings (structures) are re-constructed with an even amount of capital investment, the interest rate of funds is determined based on the loan prime rate (LPR) promulgated by the National Interbank Funding Center with authorization on the valuation benchmark date.

(II) Determination of newness rate

The newness rate of buildings is determined by adopting scoring approach and age limit approach, and the comprehensive newness rate is formed with the weighting of the calculation results of the two approaches, which is used to determine the newness rate of valuation subject, while the age limit approach is used to calculate the newness rate of structures.

1. Scoring approach:

The standard score is determined according to each structural part (including foundation, loaded structural parts, wall, exterior part, floor), renovation part (including interior and exterior walls, door, window, ceilings) and the equipment part (including water, heating, electricity, security) accounted for the proportion of building cost. Then, the intact score rate of the whole building is determined according to score for the site survey result of the structure. Accordingly, the newness rate of the whole building is determined by the above standard score and intact score.

The calculation formula is as follows: newness rate = total score of structural part \times weight of structural part + total score of renovation part \times weight of renovation part + total score of equipment part \times weight of equipment part

2. Service life approach:

The newness rate of building (structures) is determined according to the durable years and the remaining durable years. The calculation formula is as follows:

$$\text{Newness rate} = 1 - (\text{utilized years/durable years}) \times 100\%$$

3. Comprehensive newness rate:

The weight of the newness rate calculated by the age limit approach is 0.5, the weight of the newness rate calculated by the scoring approach is 0.5.

Comprehensive newness rate = $0.5 \times$ newness rate under the service life approach + $0.5 \times$ newness rate by scoring approach.

III. Equipment

This assessment relates to machinery and equipment, vehicles and electronic equipment.

In accordance with the Practice Guidelines for Asset Valuation – Machinery and Equipment, the assessment of machinery and equipment shall generally be carried out by the cost approach, market approach and income approach. Appropriate approaches shall be adopted based on the relevant conditions such as the valuation target, value type and information collection.

The market approach is a valuation methodology which determines the value of the valuation target by comparing the valuation target with the existing transaction cases in the market and revising the comparative factors. The basic condition of using the market approach is that a more active trading market is needed, and the comparable indicators and parameters of the market cases and the valuation target can be collected and quantified. For most of the equipment, due to difficulties in collecting detailed information of the case and the inability to understand the details of the transaction, market approach is not adopted for the valuation except for certain vehicles.

The income approach refers to the valuation methodology which determines the value of the valuation target by capitalizing or discounting the expected revenue of the appraised assets. When using the income approach for assessment, the valued asset must have independent profitability or its profitability can be quantified, and the future income period can also be reasonably quantified. Due to the failure of quantifying the income of the machinery and equipment and other fixed assets in this assessment, income approach is not adopted.

The cost approach is resorting to reproduction or replacement of the valued assets. The price that any potential investors are willing to pay upon their decision of investment in certain assets shall not exceed the current construction cost of the assets. This assessment project is able to satisfy the conditions required for the cost approach, i.e. the valued assets are in the condition for continuing use or assumed to be in the condition for continuing use with available historical information, thus cost approach is adopted.

The cost approach of fixed assets of equipment is to determine the appraised value of equipment by estimating the replacement costs of the new equipment and then deducting the physical depreciation, functional depreciation and economic depreciation, or based on the comprehensive determination of the newness rate. The basic calculation formula of cost approach is as follows:

Appraised value = replacement costs × newness rate

(I) Determination of replacement costs

The replacement costs of equipment generally includes all direct costs and reasonable indirect costs required for re-purchasing or building new assets with the same efficacy of the evaluation subject, such as purchase price of equipment (ex-factory price of equipment), transportation and miscellaneous cost, installation and commissioning cost, equipment foundation costs, etc.

1. Determination of replacement costs of machinery and equipment

The calculation formula of the replacement costs of important machinery and equipment is as follows:

Replacement costs = purchase price of equipment + transportation and miscellaneous cost + installation and testing cost + joint trial operation cost + foundation cost + preliminary cost + capital cost – deductible input value-added tax

Since some projects, such as renovation of workshop and other structures, which are reflected in the listing of the machinery and equipment, has already been included in the assessment of the buildings (structures), the appraised value will not be repeated in the equipment this time.

In determining the replacement costs of equipment, the cost of transportation and miscellaneous cost, installation and testing cost as stipulated in the prevailing market selling price of the equipment shall not be calculated repeatedly.

(1) Determination of purchase price of equipment

Valuers determine the replacement costs with appropriate adjustments by directly inquiring the sellers or the manufacturers about the prices, or referring to the price lists provided by various distributors, recent price information (2022 version of the Mechanical and Electrical Products Price Information Query System), the price information published on the internet (Alibaba, Makepolo, Chuli, China.cn and other websites) and considering the possible floating factors. In the event that the current market no longer disposes or unavailable to search for the purchase price with alternative standard equipment and general equipment, on the premise of fully considering the alternative factors, corresponding adjustments are determined through the market inquiry and the review to the relevant price manual.

(2) Determination of transportation and miscellaneous cost

Transportation and miscellaneous cost refers to the loading and unloading, transportation, storage and insurance incurred before the equipment arrives at the place of use, which is generally calculated by a certain ratio of the purchase price of the equipment. The calculation formula is as follows:

Transportation and miscellaneous cost = purchase price of the equipment with taxes included \times rate of transportation and miscellaneous cost

(3) Determination of installation and testing cost

With reference to the Manual of Data and Parameters Commonly Used in Asset Appraisal, an appropriate fee rate is adopted.

Installation and testing cost = purchase price of the equipment with taxes included \times rate of installation and testing cost

(4) Determination of joint trial operation cost

If the value of the production line is evaluated, the operation of the entire production line shall be connected and adjusted after the completion of the testing of the independent equipment. With reference to the Manual of Data and Parameters Commonly Used in Asset Appraisal, an appropriate fee rate is adopted.

(5) Determination of foundation cost

With reference to the Manual of Data and Parameters Commonly Used in Asset Appraisal, an appropriate fee rate is adopted.

Foundation cost = purchase price of the equipment with taxes included \times rate of foundation cost

The foundation of the equipment has been considered separately in the part of the building and structures, and will not be calculated repeatedly.

(6) Preliminary cost

Preliminary cost include management cost of the contractor, cost of investigation and design, cost of construction supervision and agent service cost for bidding. The relevant rate of preliminary cost shall be recorded according to the rate corresponding to the overall investment scale of the special glass production enterprise.

The calculation formula of preliminary cost is as follows:

Preliminary cost = (purchase price of the equipment with taxes included + transportation and miscellaneous cost + installation cost + foundation cost) \times rate of preliminary cost

(7) Capital cost

According to the loan interest rate corresponding to the valuation benchmark date and the reasonable construction period, it shall be evenly invested according to the purchase price of the equipment, transportation and miscellaneous cost, foundation cost, installation and testing cost and preliminary and other cost. The calculation formula is as follows:

Capital cost = (purchase price of the equipment with taxes included + transportation and miscellaneous cost + installation cost + joint trial operation cost + foundation cost + preliminary cost) \times reasonable construction cycle \times loan interest rate/2

(8) Deductible input value-added tax

The appraised entity is a VAT-based general taxpayer. According to the relevant provisions of the Notice on Adjusting Value-Added Tax Rates of Ministry of Finance and the State Administration of Taxation (Caishui [2018] No. 32), the purchased production equipment is subject to the deductible input tax. The calculation formula is as follows:

Deductible input value-added tax = (purchase price of the equipment/1.13 \times 13%) + (transportation and miscellaneous cost/1.09 \times 9%) + (installation and testing cost/1.09 \times 9%) + (joint trial operation cost/1.09 \times 9%) + (foundation cost/1.09 \times 9%) + (preliminary cost/1.06 \times 6%)

General equipment mainly refers to the price of equipment which is relatively low in value and common in the market. As most of these types of equipment are common equipment, the transportation and miscellaneous cost, installation and testing cost are included in the purchase price of equipment and are not separately calculated. The calculation formula of replacement costs is as follows:

Replacement costs (excluding tax) = replacement costs of equipment with taxes included – deductible input value-added tax

2. *Determination of replacement costs of electronic equipment*

The replacement costs of electronic equipment is determined by inquiring the quotation from the distributors and “ZOL Zhongguancun Online IT Product Quotation”, “IT168-IT mainstream information platforms” and other professional electronic equipment price information websites. The replacement costs of equipment which the purchase price cannot be obtained by inquiries from market, manufacturer and relevant price data, is determined by the purchase price of similar equipment inquired through the above-mentioned methods with analogy approach and the adjustment based on the variation of the equipment. The calculation formula of replacement costs is as follows:

Replacement costs = purchase price of the equipment – deductible input value-added tax or

Replacement costs = purchase price of the equipment with taxes excluded (rounding)

3. *Determination of replacement costs for vehicles*

For the vehicles included in the valuation, if it is difficult to search for comparable transaction cases, the replacement costs of taxable vehicles that can drive on the highway with vehicle registration certificate is determined in accordance with the market price of the basic configuration of the vehicle on the valuation benchmark date, plus vehicle purchase tax and other reasonable cost (such as license fees), and then the appraised value shall be calculated in combination with the depreciation rate of the vehicle. The basic calculation formula of replacement costs is as follows:

Replacement costs = (vehicle purchase price with taxes included + vehicle purchase tax + other cost) – deductible input value-added tax

Where: vehicle purchase tax, passenger vehicle purchase tax rate is 10%.

The replacement costs of vehicle, such as construction machinery in the factory that are not on the road, is determined according to general equipment. The basic calculation formula of replacement costs is as follows:

Replacement costs (excluding tax) = replacement costs of equipment with taxes included – deductible input value-added tax

(II) Determination of newness rate

1. *The newness rate of important machinery and equipment is determined by observation approach (i.e. investigation scoring approach), combined with age limit approach.*

Newness rate = newness rate under the service life approach \times 40% + newness rate by observation approach \times 60%

Observation approach is the judgement made by the valuer based on experience on the technical status (such as vibration, noise, temperature, processing precision, production capacity, energy consumption and failure) and extent of deterioration of the subject matter.

The weight of the determination of the newness rate under service life approach is 40%, and the weight of the determination of the newness rate under observation approach is 60%, of which the calculation formula of the newness rate under service life approach is as follows:

$$\text{Newness rate under the service life approach} = \frac{\text{economic service life} - \text{serviced life}}{\text{economic service life}} \times 100\%$$

$$\text{Newness rate under the service life approach} = \frac{\text{durable years}}{\text{durable years} + \text{utilized years}} \times 100\%$$

The “Durable years” in the formula is the professional judgement made by the valuer based on the actual technical condition of the machinery and equipment taking into account the effective age of the machinery and equipment, and the value of “durable years” is positive.

2. *For those equipment of smaller value, depreciate rate is determined primarily using the service life method. For that equipment featuring short life-span, rapid change in price and substantial functional depreciation, the newness rate is determined according to a combination of factors including the economic life of equipment and the technical upgrading cycle.*

$$\begin{aligned} \text{Newness rate} &= \text{Newness rate under the service life approach} \\ &= \frac{\text{economic service life} - \text{serviced life}}{\text{economic service life}} \times 100\% \end{aligned}$$

When the technological conditions of the equipment deviate significantly, causing a great difference between the actual newness rate and the Newness rate under the service life approach, the newness rate shall be calculated according to the following formula:

$$\begin{aligned} \text{Newness rate} &= \text{Newness rate under the service life approach} \\ &= \frac{\text{Durable years}}{\text{Durable years} + \text{Utilized years}} \times 100\% \end{aligned}$$

3. *Electronic equipment is a kind of common equipment with small value, in which the newness rate is mainly determined by the service life approach, i.e. according to a combination of factors including the useful economic life of equipment and the technical upgrading cycle. The formula for determining the newness rate based on the useful life is:*

$$\begin{aligned} \text{Newness rate} &= \text{Newness rate under the service life approach} \\ &= \frac{\text{economic service life} - \text{serviced life}}{\text{economic service life}} \times 100\% \end{aligned}$$

For some obsolete electronic equipment in use, the newness rate is 10%.

4. *Newness rate of vehicles*

(1) Theoretical newness rate:

For non-operating small and mini passenger vehicles, large sedans, etc., it refers to the vehicles with no age limit, including non-operating small and mini passenger vehicles, large non-operating sedans and self-propelled wheeled machines, as stipulated in the Provisions on the Criteria for Compulsory Discard of Motor Vehicles (Order [2012] No. 12 jointly issued by the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection) to determine theoretical newness rate by vehicle mileage.

Useful life of a motor vehicle shall begin from the date of registration, or in case of failure in registration formalities for over 2 years from the ex-factory date, from the ex-factory date.

The calculation formula of mileage-based newness rate is as follow:

Mileage-based newness rate = (designated mileage – mileage already traveled)/
designated mileage × 100%

(2) Observed newness rate:

The observed newness rate of vehicles is determined through comprehensive analysis based on the on-site technical inspection and observation of vehicles, combined with the statistical data of vehicle appearance, actual technical status, energy consumption, original manufacturing quality of vehicles and car accidents, as well as the opinions of vehicle management personnel and drivers as understood by the valuer.

(3) Comprehensive newness rate:

The final formula for calculating the comprehensive newness rate is:

Comprehensive newness rate = mileage-based newness rate × weight +
observed newness rate × weight

Where: the weight for mileage-based newness rate is 60%, while the weight for the observed newness rate is 40%

(III) Vehicles based on market approach

As the vehicles included in the valuation have active trading markets with many comparable cases, the market approach is preferred to be adopted.

The market approach is mainly applicable to vehicles purchased a long time ago and discontinued in production. The approach is as follows: selection of automobile trade cases with the strong relativity and replacement nature within the same supply and demand scope as the unit subject to this valuation in the second hand automobile market in recent period. According to the situation of the unit subject to this valuation and the comparable case, analyze, compare and correct the element affecting the price in the 2nd hand automobile market, such as the available driving miles, the trade date and the condition of the traded vehicle. The calculation formula is as follows:

Comparative and corrective price = transaction price of the comparable example $\times 100 /$ (corrected coefficient for the driven miles of vehicle) $\times 100 /$ (correction coefficient of the vehicle condition) $\times 100 /$ (correction coefficient of the vehicle trade date) $\times 100 /$ (correction coefficient of the trade of vehicle)

Average comparative and corrective price = (Case A + Case B + Case C) $\div 3$

Market value of vehicle = average comparative and corrective price/1.13

IV. Projects under construction

The assessment of the projects under construction- equipment installation project mainly consisted of the 500t/d machinery and equipment that have been suspended production or performed overhaul for two years. According to the strategic adjustment of the enterprise, the time for the production line to resume production in the later period has yet to be determined. The valuation is based on the normal calculation of replacement costs and the consideration of the economic depreciation factor of production suspension.

Calculation formula of economic depreciation: Economic depreciation = (replacement costs – physical depreciation – functional depreciation) \times economic depreciation rate

Estimation method of economic depreciation of cost in the valuation of specific machinery and equipment

For Scale Economies Effect Index Method, if the equipment is relatively idle due to the decrease of the utilization rate of the equipment, resulting in loss of income, the economic depreciation of the equipment can be estimated by referring to the following formula:

Economic depreciation rate = $[1 - (\text{expected usable production capacity of equipment} / \text{original design production capacity of equipment})^n] \times 100\%$

Where: n is the Scale Economies Effect Index, and empirical data are often used in practice. The n index of machinery and equipment generally selects 0.6–0.7, and the economic depreciation is obtained by multiplying the residual value of the replacement costs of the equipment after deducting the physical depreciation and functional depreciation by the economic depreciation rate. That is:

Economic depreciation = (replacement costs – physical depreciation – functional depreciation) × economic depreciation rate

V. Intangible assets - land use rights

(I) Analysis on applicability of valuation methods

According to Valuation on Urban Land (《城镇土地估价规程》), Asset Appraisal Practicing Standards-Real Estate, Code for Real Estate Appraisal (National Standard of the People's Republic of China GB/T 50291–2015) (system for determining real estate appraisal) and the Standards for Basic Terminology of Real Estate Appraisal (GB/T 50899–2013) (description for determining real estate appraisal methods), the generally accepted valuation methods for land price mainly include market comparison approach, income approach, benchmark land price coefficient correction approach and cost approach. The choice of valuation method should be based on the purpose of valuation combined with the specific characteristics of the valuation target, the surrounding market conditions, and the applicability and operability of the valuation method, and consider the above comprehensively for selecting an appropriate valuation method.

The market comparison approach is a method to evaluate the value or price of an object through processing the transaction price of comparable cases based on the differences between them after selecting a certain number of comparable cases for the evaluation object. The basic conditions for using the market comparison approach are: a relatively active trading market is necessary; market cases and comparative indicators and parameters can be collected and quantified against an evaluation object. There are relatively few land transaction cases of the same type in such assessment area, and therefore, it is inappropriate to adopt the market comparison approach.

Benchmark land price coefficient correction approach is a method to determine the value of the subject land as at the valuation benchmark date by using valuation results such as benchmark land price of cities and towns as well as benchmark land price coefficient through comparing the regional and individual conditions of the subject land with the average conditions of the region where it is located in accordance with the substitution principle,

and adjusting the benchmark land price by applying the corresponding correction coefficient selected from the adjusted coefficient table. As this land is located within the coverage of the benchmark land premium in Qinhuangdao urban area, the benchmark land premium coefficient correction approach can be adopted.

The cost approximation approach is to determine the price of land based on the sum of various expenses incurred for the development of land, plus a certain amount of profit, interest, tax payable and land appreciation gain. As the acquisition cost, development cost and other information of similar land use right located near the land to be appraised in the period of the valuation date can be collected, it is suitable to adopt the cost approximation approach for the valuation.

To sum up, according to the purpose of this valuation, the use of the assets, the actual survey and the available information, the land use right of the valuation target is appraised by using the benchmark land premium coefficient correction approach and the cost approach, and the weighted average value of the valuation results of the two approaches is determined as the value of the valuation target.

(II) Valuation formula

1. The benchmark land price coefficient correction approach

Land parcel price under the benchmark land price coefficient correction approach (land parcel price with development progress under benchmark land price) = benchmark land price $\times K1 \times K2 \times K3 \times (1+\Sigma K)$

Where,

K1- Correction coefficient on date

K2 – Correction coefficient on land useful life

K3 – Correction coefficient on floor area ratio

ΣK - Sum of the correction coefficients on regional factors and individual factors affecting land price

If there is difference between the level of development progress under benchmark land price adopted in this valuation and that of the land parcel under this valuation, it is necessary to make correction with development progress, so as to get the land parcel price with development progress under the valuation. Therefore,

Land parcel price under set development progress level = land parcel price with development progress under benchmark land price \pm correction range of development progress

2. *The basic calculation formula of cost approach is as follows:*

Land price = land acquisition fee + relevant tax + land development fee + investment interest + investment profit + land appreciation gain

VI. Intangible assets – other intangible assets

Intangible assets – other intangible assets within the scope of the valuation are the right to use the purchased software, which is the financial Kingdee software for the enterprise's production and office use.

For software that has been obsoleted on the valuation benchmark date, the evaluation value is zero;

The appraised value of purchased software that is available for sale in the market without an upgraded version on the valuation benchmark date is determined based on the market price of similar software on the valuation benchmark date;

The appraised value of purchased software that is available for sale in the market with upgraded versions is calculated as the current market price less the software upgrade fee;

In respect of the software without market price as reference, the market price on the valuation benchmark date, i.e. replacement costs, is determined mainly with reference to the original acquisition cost of the enterprise and the market price trend of the similar software. The formula for calculating the appraised value is as follows:

Appraised value = replacement costs \times (1 – depreciation rate)

The depreciation rate can be calculated with reference to the following formula:

Depreciation rate = used life/(used life + remaining useful life)

VII. Long-term deferred expenses

Long-term deferred expenses are financing fees. For long-term deferred expenses, the appraised value is determined by the corresponding assets or rights over long-term deferred expenses based on the verification of the expenditure and amortization policy in this assessment.

VIII. Other non-current assets

Other non-current assets are the early bidding funds and technical service fees prepaid by the appraised entity to China Triumph International Engineering Co., Ltd., the business dealing entity, for the early construction of the Project of Photovoltaic Cell Encapsulating Material for Solar Equipment. After the valuer verifies the authenticity and rationality of the other non-current assets, the audited book value shall be taken as the appraised value.

IX. Liabilities

Liabilities are short-term borrowings, contractual liabilities, accounts payable, salaries payable, taxes payable, other payables, non-current liabilities due within one year, other current liabilities and deferred income.

In the assessment, all kinds of liabilities such as the business scope, the carrying amount, the date of occurrence, reasons for formation, basis of confirmation of the enterprise and the agreed terms and methods of repayment shall be investigated and verified. The main content, basis of provision, method of provision and amount of provision of all kinds of expected liabilities shall be examined and approved. Necessary investigations or inquiries in respect of important liabilities to the relevant personnel or to the other parties shall be conducted. Necessary analysis on the probability of the performance of a liability to determine whether there is a debt that is not required to reimburse or a provision that is not required to pay. Subject to the full consideration of the debt and the authenticity of the obligation, the amount of the liability verified is used as the appraised value.

SECTION II INCOME APPROACH

Income approach is an asset assessment approach by estimating the expected income of the valuation asset in the future and discounting to its present value in order to determine the asset valuation.

The asset valuation determined by the income approach refers to the total amount of currency paid to obtain the expected income right in order to receive the asset. The appraised value of the assets is highly correlated to the effectiveness and the application of such assets. The value of an asset is proportional to its effectiveness, earning capacity, profitability and value.

The basic calculation formula of income approach is as follows:

$$P = \sum_{t=1}^n \frac{R_t}{(1+r)^t}$$

Where: P: appraised value
N: income period
R_t: expected income for the t year
r: discount rate

I. Assessment technology idea

Free cash flow modeling is adopted for this assessment of the income approach, in which the expected income is the cash flow generated from the entire investment capital of the Company (all shareholders' equity and interest-bearing debt). The value of total equity of shareholders is based on the free cash flow of the Company for several years in the future, then discounting it to the value of operating assets at appropriate discounting rate, adding the value of non-operating assets and surplus assets value, less the interest-bearing debts and non-operating liabilities.

The calculation formula is as follows:

The value of total equity of shareholders = free cash flow discount value of the enterprise – interest-bearing debts + value of non-operating assets – non-operating liabilities + surplus assets value

II. Free cash flow discount value of the enterprise

Free cash flow discount value of the enterprise includes the discounted value of free cash flow during the specific forecast period and the discounted value of free cash flow after the specific forecast period.

(I) *Specific forecast period*

The main products of Qinhuangdao North Glass Co., Ltd. are coloured glass and colour coated glass. The products are widely used in curtain wall, hollow, tempering, mirror, doubling, household appliance panel, construction, decoration and other fields. As the enterprise's short-term earnings can be relatively reasonably forecasted while the forward earnings is relatively hard to be reasonably forecasted, as per customary practice, this estimate divides the enterprise's income period into two periods, namely specific forecast period and perpetual period. After considering the development plan and the investment of future capital expenditure of the estimated unit, combined with the investigation of the industry, specific forecast period is determined by comprehensive analysis. Taking into account the scale of the enterprise and changes in macroeconomic, as well as market demand, specific forecast period is set to be 2026.

(II) *Income period*

As at the valuation benchmark date, the appraised entity was under normal operation. There are also no limitations on the useful life of the core assets that affect the enterprise's operation on a going concern basis and on the sale and operation period of the enterprise and the duration of investor's ownership, or such limitations can be released and extension can be applied to achieve sustainable use. Therefore, the income period may be determined on a perpetual basis.

(III) Free cash flow of the enterprise

The calculation formula of free cash flow of the enterprise is as follows:

$$P = \left[\sum_{i=1}^n F_i (1+r)^{-i} + F_n / r (1+r)^{-n} \right]$$

Where: P—free cash flow discount value of the enterprise

F_i —expected amount of free cash flow of enterprises in the coming i year

F_n —expected amount of free cash flow during perpetual period

r—discount rate

n—forecast period

Free cash flow of the enterprise = net profit after tax + depreciation and amortization + interest (after tax) – capital expenditure – increase in operating capital = revenue from principal businesses – cost of principal business + profit of other business – tax and surcharge – cost incurred during the period (administrative expenses, selling expenses, finance costs and R&D expenses) + investment income + gain on disposals of assets + other income + non-operating income less expenses – income tax + depreciation and amortisation + interest (after tax) – capital expenditure – increase in operating capital

(IV) Discount rate

According to the principle of consistent basis for the income amount and the discount rate, the basis to determine the income amount for this valuation is the free cash flow of the enterprise and the weighted average cost of capital (WACC) is chosen as the discount rate. The formula is as follows:

$$WACC = K_e \times \frac{E}{D+E} + K_d \times \frac{D}{D+E} \times (1-T)$$

Where: K_e : cost of equity capital;

K_d : cost of debt capital;

E: equity capital;

D: debt capital;

T: Income Tax Rate.

Among which the Capital Asset Pricing Model (CAPM) is adopted to calculate the cost of equity capital. The calculation formula is as follows:

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

Where: R_f : risk-free interest rate;

MRP: market risk premium;

β : system risk coefficient of equity;

R_c : specific corporate risk adjustment coefficient.

III. Interest-bearing debts

Interest-bearing debt refers to the debt that are interest-bearing on the valuation benchmark date and generally comprise short-term borrowings, non-current liabilities due within one year, long-term borrowings, etc., with the verified book value as the appraised value of the interest-bearing debt. In this assessment, interest-bearing debt includes short-term borrowings and non-current liabilities due within one year.

IV. Non-operating assets

Non-operating assets represent assets that have no direct link to the operating income of the enterprise and value of which is not included in the free cash flow discount value of the enterprise. This kind of assets do not generate profits, which increase asset size and reduce corporate profit margin. Non-operating assets in this assessment are prepayments that are not directly related to the income from operating activities, other receivables and other current assets, other non-current assets, fixed assets, construction in progress and intangible assets. Cost approach is adopted for this assessment.

V. Non-operating liabilities

Non-operating liabilities represent liabilities that have no direct link to the income generated from operating activities of the enterprise and value of which is not included in the free cash flow discount value of the enterprise. Non-operating liabilities in the assessment are other current liabilities and accounts payable, other payables and deferred income that are not directly related to the income from operating activities. Cost approach is adopted for this assessment.

VI. Surplus assets

Surplus assets represent superfluous assets that have no direct link to and exceed the required amount for the operation of the enterprise, generally referring to surplus monetary capital.

CHAPTER IV IMPLEMENTATION PROCESS AND STATUS OF VALUATION**I. Pre-investigation**

After receiving the notice from the client, the Company shall arrange for the relevant responsible person to communicate with the client, the person in charge of the appraised entity and relevant personnel and conduct appropriate investigation. To understand the purpose of the assessment and the economic behavior, target and scope of the valuation, to understand the basic information of the valuation target, the specific types, distribution and characteristics of the assets included in the scope of assessment, to understand the industry, legal environment and accounting policies of the enterprise, and to understand the client's consideration of the valuation benchmark date and the requirements for the completion date of the report. After comprehensive analysis and valuation, it is determined that the appraisal institution is of professional competency to carry out this valuation and can conduct the valuation independently. At the same time, the business risk is within a controllable scope. Upon the conditions above, the Company shall negotiate with the client and enter into asset appraisal entrustment contract.

II. Preparation of appraisal plan

Based on the needs of this assessment, the person in charge of the project shall be identified and the appraised asset appraiser and appraisal support personnel shall be arranged to form the appraisal project team. The assessment plan shall be prepared by the person in charge of the project and implemented after being reviewed by the responsible person of the appraisal organization.

The assessment plan covers the whole process of implementation assessment, such as on-site investigation, collection of evaluation information, evaluation of estimates, preparation and submission of evaluation reports, preliminary determination of the basic method used for assessing the estimates, and corresponding scheduling of the various stages of the evaluation.

III. Conduction of field work

- (I) *Arranging and providing guidance for the relevant personnel to complete the asset valuation schedule.***
- (II) *Submitting the due diligence list and collecting documents required for valuation, including property rights certificates of fixed assets and intangible assets, equipment purchase contracts or invoices and financial statements, audit reports in recent years, feasibility demonstration of investment or technical renovation projects, etc.***
- (III) *Conducting asset inventory verification in accordance with the requirements of the valuation criteria:***
1. Checking whether there are any errors, omissions or duplicates in the asset appraisal schedules completed by the enterprise, comparing the asset evaluation schedule with the financial general ledger category by category; Spot checking the key items of the assets or liabilities, cross-checking the data recorded in the asset appraisal schedules with the financial statements, and making the accounts and statements consistent;
 2. A key full inspection and general spot check of all kinds of physical assets listed in the valuation list of assets shall be carried out on the spot, so as to verify the quantity of all kinds of physical assets and ensure that the accounts, statements and objects are consistent; At the same time, we conduct on-site inspections of building structures and key equipment to form detailed survey records, conduct conversations with asset management personnel and operational personnel, and inspect equipment operation logs and records of large and medium-sized repairs;
 3. Comparing with the land information, and checking the topography and geomorphology on the spot, and understand the surrounding area, environment, transportation and land development and utilization, practical use, etc.;
 4. Verifying the issuance of letter confirmation for receivables in large and key amount, we understood the business transactions and the credit status of the counterparties, to consult the relevant agreements and contracts of major liabilities, to understand the time of occurrence, the process of formation, and the situation of debt repayment;
 5. Consulting and identifying the property right certification documents and materials provided by the enterprise, ascertain the property right status of the fixed assets, and investigate the major matters that may affect the asset evaluation.

- (IV) *Forming an interview record after listening to the introduction of the relevant personnel of the appraised entity on the enterprise, key assets, history and current situation of the major products by the means of symposiums and interviews, and making an understanding of the production, operation and management of the enterprise.*
- (V) *Making a historical comparison, capacity measurement, horizontal comparison and trend analysis of the forecast data such as future main income, cost and profit in the “Future Operation and income Forecast statement” of the description of relevant items of relevant assets by the client and the appraised entity; in order to judge the possibility or realizability of its future realization, and the degree of availability in the valuation of income approach.*
- (VI) *Conducting research activities outside the appraised entity, including visiting the market or enquiring market information to understand the sales situation, price trend, market share and the corresponding situation of other enterprise products in the same industry, as well as the market competition situation; Understanding the relevant industrial policies, financial policies, market analysis of industry authorities or industry organizations, industry development opinions and industry statistics of the state through media such as websites, professional publications; visiting the construction management department and the real estate market to grasp information and materials of real estate and land prices, conduct market research in the form of telephone inquiries and on-site consultation, and obtain price information for equipment other than price manuals and media information.*

IV. Collection of information of valuation

The collected valuation data was analyzed to assess the reliability, rationality and availability of each information with the principles of “refining and streamlining” and “seeking the truth”. After analysis and screening, all reasonable and reliable data are collected. The information was categorized according to the needs of the valuation work, which was to classify the appraisal information in the categories of current assets, fixed assets, construction in progress, intangible assets, long-term deferred expenses and other non-current assets and current liabilities and non-current liabilities and income approach.

V. Valuation and estimation

Extracted the information reflected by various types of organized appraisal data, and analyzed the various data and parameters that were needed for valuation, which could not be obtained directly in the process of valuation. Then various valuation approaches were then used respectively to assess the estimates.

VI. Summary analysis

The preliminary valuation results of various assets and liabilities in the cost approach (asset-based approach) were reviewed, and the valuation process and results of individual asset projects were modified appropriately if necessary. In the case of confirming that the valuation results of individual assets and liabilities were basically compliant and reasonable and there was no reassessment or omission of assessment of the assets and liabilities, then the results were compiled and the valuation results of the cost approach (asset-based approach) were obtained. At the same time, we reviewed the whole process of the assessment of the income approach, the formation of various data, the selection of various parameters etc., and made appropriate adjustments to the individual data and parameters if necessary, so as to further improve the assessment and ensure the relative reasonableness of the valuation results. Then, the valuation results of the two approaches were fully analyzed and compared, and on the basis of comprehensively considering the reasonableness as well as the quality and quantity of the data used of different valuation approaches and their valuation results, the valuation result of one of the approaches was determined as the valuation conclusion.

VII. Submission of valuation report

The asset valuation report was drafted based on the valuation work and the preliminary draft of the asset valuation report was formed after three-level review within the evaluation institution. Opinions shall be sought from the entrusting party on the preliminary draft of the asset valuation report, and shall make necessary communication with the entrusting party on relevant matters involved. Without prejudice to the independent judgment of the appraisal institution on the final appraisal conclusion, the entrusting party's reasonable opinion or recommendation on the asset valuation report shall be adopted. A formal asset valuation report is then submitted to the entrusting party.

CHAPTER V VALUATION ASSUMPTIONS

The basic objective of asset appraisal is to have a fair appraisal conclusion and all fair appraisal conclusions are binded by conditions. An important form of such binding conditions for asset appraisal is the asset appraisal assumptions.

I. The assumptions used in this assessment***(I) Basic assumptions******1. Transaction assumption***

Transaction assumption assumes that all assets to be valued are in the process of transaction, and the valuer will conduct the valuation with reference to a simulated market based on the transaction conditions of assets to be valued. The transaction assumption is a fundamental prerequisite for the further implementation of the asset valuation.

2. Open market assumption

Open market assumption assumes that with respect to the asset traded or to be traded in the market, the transaction parties are equal and have opportunity and time to access enough market information so as to make a rational judgment on the function, intended purpose and transaction price of the assets. The open market assumption is made on the basis that the assets are available for trading openly in the market.

3. Assumption on continuing operation

Assumption on continuing operation is based on the assumption that the appraised enterprise continues to operate in accordance with its original business purpose and operating methods after the valuation benchmark date.

(II) General assumptions

1. It is assumed that there are no material changes in the relevant existing laws, regulations and policies, and macroeconomic conditions of the PRC as well as in the local political, economic and social environment of such places where the parties to the transaction are operating after the valuation benchmark date;
2. It is assumed that, after the valuation benchmark date, the persons operating the appraised entity under valuation is accountable, and the management is capable of performing their duties after the valuation benchmark date;
3. It is assumed that the appraised entity has fully complied with all relevant laws and regulations.

(III) Specific Assumptions

1. It is assumed that the accounting policies to be adopted by the appraised entity after the valuation benchmark date are basically consistent with the accounting policies adopted when this report is prepared in respect of key aspects;
2. It is assumed that the business scope and practice of the appraised entity will remain consistent with the current directions after the valuation benchmark date based on the existing management practice and management level of the company;
3. The type of the value is the market value, regardless of the impact of the economic behavior in relation to the valuation purpose on the business operation of the enterprise;
4. It is assumed that the appraised entity will have even cash inflow and cash outflow after the valuation benchmark date;
5. It is assumed that the current applicable tax policies of the appraised entity will not change significantly in the future;
6. This assessment assumes that the basic information and financial information provided by the entrusted party and appraised entity are true, accurate, and complete.

II. The impact of the valuation assumptions on the conclusion of the valuation

The valuation conclusion of this assets valuation report is established at the valuation benchmark date under the above assumptions, and in the event of a significant change in the above assumptions, the undersigning asset valuer and the appraisal institution shall not be liable for deriving a different valuation conclusion as a result of the change in the assumptions.

CHAPTER VI CONCLUSION OF THE VALUATION

I. Valuation results of two approaches

(I) Cost approach (asset-based approach) valuation results

The book value of the total assets of Qinhuangdao North Glass Co., Ltd. was RMB558,383,500, the appraised value was RMB640,179,700, the appreciation value was RMB81,796,200, and the appreciation rate was 14.65%; the book value of total liabilities was RMB230,509,200, and the appraised value was RMB230,509,200, with no increase or decrease in the appraised value; the book value of net assets was RMB327,874,300, the appraised value was RMB409,670,500, the appreciation value was RMB81,796,200, and the appreciation rate was 24.95%.

Table of Summary of Cost Approach (Asset-Based Approach) Valuation Result

Unit: RMB0'000

Item	Book Value A	Appraised Value B	Appreciation/ Depreciation C=B-A	Appreciation Rate % D=C/A × 100%
Current assets	17,745.72	19,147.27	1,401.56	7.90
Non-current assets	38,092.64	44,870.70	6,778.06	17.79
Fixed assets	14,787.78	18,122.20	3,334.42	22.55
Construction in progress	3,204.92	2,502.72	-702.21	-21.91
Intangible assets	12,991.60	17,137.45	4,145.85	31.91
Long-term deferred expenses	108.33	108.33		
Other non-current assets	7,000.00	7,000.00		
Total assets	55,838.35	64,017.97	8,179.62	14.65
Current liabilities	21,189.67	21,189.67		
Non-current liabilities	1,861.25	1,861.25		
Total liabilities	23,050.92	23,050.92		
Net assets (Owner's equity)	32,787.43	40,967.05	8,179.62	24.95

(II) Valuation result using the income approach

The book value of total assets, total liabilities and net assets of Qinhuangdao North Glass Co., Ltd. as of the valuation benchmark date were RMB558,383,500, RMB230,509,200, and RMB327,874,300 respectively.

The total equity value of the shareholders as assessed by the income approach was RMB408,777,700. In comparison with the book value of net assets, the net appreciation is RMB80,903,400, representing an appreciation rate of 24.68%.

The details of the valuation results of the cost approach (asset-based approach) and the detailed process of the income approach valuation are set out in the detailed statement of assets and liabilities assessment and the calculation table of the income approach, respectively.

II. Analysis and selection of assessment results

The result of cost approach is RMB892,800 higher than that of income approach, with a difference rate of 0.22%. In the estimation of future revenue indicators in the assessment of the income approach, we take into account various factors such as domestic and overseas macroeconomic conditions, industry conditions, management's strategic adjustment measures, development plans and operational capabilities. The assessment of cost approach is based on the cost of assets according to the market values instead of historical costs of each asset and liability items within the scope of assessment, and through the addition of all identifiable assets estimated separately.

In the estimation of future revenue indicators in the assessment of the income approach, the asset valuer comprehensively analyzed various factors, such as domestic and overseas macroeconomic conditions, industry conditions, the enterprise's strategic adjustment measures, development plans, operational capabilities, as well as the impact of the enterprise's development scale, risk resistance capacity and possible changes in the future market. The valuation process and results of income approach are analyzed from two aspects. Firstly, limited by relevant information and circumstances, it is still uncertain as to whether the above factors have been fully considered in the forecast of enterprise income and profit in the assessment of the income approach. Therefore, the possibility of significant deviation between the future actual revenue and the forecast revenue cannot be excluded in the assessment of the income approach, especially in recent years, due to the global "carbon neutral" expectations and domestic policy changes such as energy conservation and environmental protection, supply-side reform, etc., the appraised entity has weak bargaining power in market competition, and the impact on business operation cannot be completely defined. Secondly, the 500t/d production line of the appraised entity has been out of production for many years, and there is no clear schedule for resumption of production. The 600t/d production line has been put into service beyond its age and will undergo cold repair and transformation, which will have a great impact on the production and operation of the entity. Thirdly, the historical income and profit of the entity

have experienced great fluctuation, and the forecast based on the historical annual income level and the Company's development plan may be significantly different from the future annual income. Although the business scale and net income of the appraised entity in 2021 have risen steadily and reached the best level in history, the judgment on the time and speed of the recovery and the subsequent profitability of the enterprise is still not considered the most appropriate due to the limited data and information obtained. Based on the above analysis, we believe that the data quality of cost approach is better than to that of income approach.

The valuers combine the valuation target, the purpose of the appraisal, and the applicable types of values, through the investigation of the financial situation of the appraised entity, the analysis of historical business performance and future planning. After the comparative analysis, it is considered that the valuation result of the cost approach can more comprehensively and reasonably reflect the value of the whole equity of the shareholders of the appraised entity, so the valuation results of the asset-based approach (cost approach) are selected as the final conclusion of this valuation.

III. Conclusion of the valuation

After implementing the above valuation procedures and methods, our conclusions are set out as follows: In the aforementioned valuation purpose, the market value of all shareholders' rights and interests of Qinhuangdao North Glass Co., Ltd. on valuation benchmark date 31 December 2021 was RMB409.6705 million and the appreciation amount was RMB81.7962 million with appreciation rate of 24.95%.

CHAPTER VII NOTES ON SPECIAL MATTERS

I. Incomplete or defective ownership information

- (1) The land Ji (2021) Qinhuangdao Real Estate Certificate No. 0074617, the certificate area is 133,441.51 m², and the land user of the certificate is Qinhuangdao North Glass Co., Ltd.. According to the Statement of the North Company and the Great Wall Company on a Land History Issue (《北方公司與長城公司關於一宗土地歷史遺留問題的情況說明》) provided by the appraised entity, the land is actually shared by Qinhuangdao North Glass Co., Ltd. and Qinhuangdao Great Wall Glass Industry Co., Ltd. (formerly a subsidiary of Qinhuangdao North Glass Co., Ltd.). On 8 January 2020, the Qinhuangdao City Surveying and Mapping Brigade conducted surveying and mapping of the portion of land owned by the Qinhuangdao Great Wall Glass Industry Co., Ltd., and the map issued by the survey showed that its area was 10,409.11 m². Therefore, the actual land area owned by Qinhuangdao North Glass Co., Ltd. is 123,032.40 m². As of the valuation benchmark date, the land division procedures of the appraised entity and Qinhuangdao Great Wall Glass Industry Co., Ltd. are in progress.

On 16 April 2021, Qinhuangdao Great Wall Glass Industry Co., Ltd. entered into the Supplemental Agreement with North Glass, which defined the obligations and rights of both parties in the process of land division. As for the progress, the appraised entity has provided the Statement on the Process of Real Estate Segregation with the Land of Qinhuangdao Great Wall Glass Industry Co., Ltd. (《與長城土地房產分宗進程的說明》). The income tax calculation method and amount of this transaction need to be replied by the tax department, which has yet to be processed.

- (2) The land use right of the land in the southern side of Basuo Village, Basuo Town, Dongfang City, Hainan Province, which is included in the scope of the valuation, with land use certificate number Dong Fang Guo Yong (Basuo) Zi No. 430, covers an area of 26,650 m² and is used for industrial purposes. The land user is Qinhuangdao North Glass Group Co., Ltd. (former name). As of the valuation benchmark date, the land use certificate has not been registered for the change.

The land was actually obtained by deducting the payment for goods. Before the transfer, the land use right was owned by China Power Hainan Dongfang Glass Factory. Later, on 13 December 1999, the Haikou Intermediate People's Court ruled in its enforcement ruling (Case No. (1998) HZFZZ No. 196) that the person owning the land use right is Qinhuangdao North Glass Group Co., Ltd.. Qinhuangdao North Glass Group Co., Ltd. handled the change of land certificate on 30 December 2001. As of the valuation benchmark date, the appraised entity has not carried out any production and operation activities or any maintenance work on the plot.

In June 2022, according to the field survey, the plot has been divided into two parts. One part has been occupied by the local village committee to build a sports center, which covers an area of approximately 15,800 m². The other part, outside the new wall on the north side of the sports center, is approximately 10,850 m², which has been used to build roads and residential buildings in the village.

The appraised entity has not carried out production and operation activities on the plot, nor has it carried out any maintenance work, resulting in land idling and possible land disputes. At the same time, According to the Measures for the Disposal of Idle Land (Decree No. 53 of the Ministry of Land Resources of the People’s Republic of China), “if the Land has been idle for 2 years, the department of land and resources of the people’s government of the city or county can, with the approval of the competent people’s government, issue a Decision on Recovering the Land Use Right of State-owned Construction Land to the user of the state-owned construction land to recover the land use right of state-owned construction land without making any compensation according to Article 37 of Land Management Law of the People’s Republic of China and Article 26 of Urban Real Estate Administration Law of the People’s Republic of China.” The Hainan Land Investigation Report of Qinhuangdao North Glass Co., Ltd. provided by the appraised entity indicates that the land is at risk of being withdrawn without compensation. Therefore, in this valuation, the audited book value of the land is taken as the valuation value.

II. Significant use of expert work and related reports

The book value of the assets and liabilities included in the valuation report is the inventory value provided by WUYIGE Certified Public Accountants LLP after auditing. The valuation report refers to the unqualified audit report (WUYIGE Shen Zi [2022] No. 2–00510) issued by WUYIGE Certified Public Accountants LLP, which has been approved by the entrusted party. At the same time, the asset valuer has made professional analysis and judgment on the timeliness and reliability of quoting the report, and the appraisal institution only bears the responsibility for quotation.

III. Pending legal and economic matters etc. on the valuation benchmark date

In May 2012, the appraised entity and Beijing Shenglong Trading Co., Ltd. (北京晟隆商貿有限責任公司) (the “Beijing Shenglong Company”) signed the Storage Agreement of Qinhuangdao North Company Outsourcing Warehouse (《秦皇島北方公司外協倉儲庫房儲貨協議》), stipulating that the Company shall deliver its produced glass to the warehouse of Beijing Shenglong Company, and Beijing Shenglong Company has the right to sell the glass in stock. The contract terminated on 30 June 2013. If there is still glass from the Qinhuangdao North Glass Co., Ltd. in the warehouse, Beijing Shenglong shall purchase it in full and settle the payment in a lump sum. However, Beijing Shenglong Company has not delivered the payment of the glass. After that, the appraised entity sued the counter party, requesting the counter party for a payment of RMB21,429,300 for the glass. The case has passed the final judgment at the second instance of Hebei High Court ((2020) Ji Min Zhong No. 21) in August 2020. The results of judgment are as follows: 1. Beijing Shenglong Trading Co., Ltd. and its affiliated company Beijing Shengbao Longyuan Glass Co., Ltd. (北京晟寶隆源玻璃有限公司) paid the Company the payment of the glass amounting to RMB15,673,546.23 and related interest; 2. Wei Ming (魏鳴), Jiang Fengshan (姜鳳山) and Zhang Chunmei (張春梅), shareholders of Beijing Shenglong Trading Co., Ltd., shall bear joint and several liabilities for the debts determined in the judgment.

On 21 May 2021, Han Shuzhen, an outsider of the case, filed an appeal to the Qinhuangdao Intermediate People’s Court. After two sessions on 29 June 2021 and 18 January 2022, the Hebei High People’s Court rejected the appeal and upheld the original verdict. On 24 April 2022, Wei Ming, Jiang Fengshan and Zhang Chunmei, the persons subject to enforcement, refused to accept the effective judgment and applied for retrial.

As the person subject to enforcement related to the case refused to execute the judgment and applied for appeal, two sets of property of the person subject to enforcement related to the case were sealed up by the court, and the relevant funds are currently still implemented and there is uncertainty in the recovery of the funds, the relevant product income and the corresponding accounts receivable have not been recognized, and the appraised entity has fully accrued an impairment provision of RMB21,429,300 for the inventory. In the valuation, as the finished products have no physical objects, the inventory involved in the litigation is evaluated as zero value, which does not include the contingent right to recover the debt of the appraised entity arising from the joint and several liabilities of the parties for the discharge of their obligations.

IV. Other matters requiring explanation

- (I) In appraising the assets within the valuation scope, we have not considered the possible expenses and taxes that may be borne by the assets used in the purpose of valuation, nor the appraised value of appreciation of certain assets for tax purposes; not considered the influence on the valuation conclusions brought by mortgage assumed by assets, guaranty that may be assumed, litigation compensation and additional price that may have to be paid due to special transaction methods adopted.
- (II) According to the “Notice on the Comprehensive Rollout of the Business Tax to Value Added Tax Transformation Pilot Program” (Caishui [2016] No. 36) (《關於全面推開營業稅改徵增值稅試點的通知》(財稅[2016]36號)), since 1 May 2016, the pilot program of the transformation from business tax to value-added tax (the “VAT Program”) has been comprehensively promoted nationwide, and the VAT can be deducted when the appraised entity engages in the acquisition and construction of assets, therefore, the appraisal value of deductible assets involved in this valuation does not include VAT. At the same time, we did not consider the impact of input value-added tax related to capital expenditure during the perpetual period on operating cash flow when forecasting with the income approach.

Users of the Asset Valuation Report should note the impact of the above special matters on the valuation conclusions.

**CHAPTER VIII STATEMENT OF LIMITATION ON THE USE OF
THE ASSET VALUATION REPORT**

- I. This asset valuation report shall only be used for the purposes of valuation as stated herein, and shall be used by the entrusted party and the users of the Asset Valuation Report as required by laws and administrative regulations.
- II. This asset valuation conclusion is valid for one year from 31 December 2021 to 30 December 2022. However, if there is material change in the conditions of the valuation target or there is material movement in the market during this period, the conclusion of this valuation will be invalid. We take no responsibility towards the entrusted party and the users of the asset valuation report prescribed by laws and administrative regulations who use the report after its valid period. We also take no responsibility for any usage of the report when the valuation target experiences material changes or the market experiences material movements.
- III. If the entrusted party or other users of asset valuation report fails to use the Asset Valuation Report in accordance with the scope of use specified in the laws, administrative regulations and the Asset Valuation Report, the asset appraisal institution and its valuers shall not be held liable.
- IV. With the exception of the entrusted party, the users of other asset valuation reports as stipulated in the asset valuation entrustment contract and the users of the Asset Valuation Report prescribed by laws and administrative regulations, no other institution or individual shall become the user of the Asset Valuation Report.
- V. User of the asset valuation report shall correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.
- VI. Without the consent of the Company, content of the assets valuation report must not be extracted, quoted or disclosed on public media, unless otherwise permitted by laws, administrative regulations or agreed among relevant parties.
- VII. The valuation conclusion shall not be used unless the asset valuation report has been approved by SASAC (including the companies contributing funds).

CHAPTER IX DATE OF VALUATION REPORT AND OTHERS

- I. The date of this asset valuation report is 23 September 2022. The date of asset valuation report refers to the date on which the valuation conclusion is drawn.
- II. The asset valuation report contains a number of appendices (see list of appendices), which are an important part of the asset valuation report.

Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd.*

23 September 2022

APPENDICES TO THE ASSET VALUATION REPORT:

- I. The Corresponding Economic Activity Document on the Valuation Purpose;
- II. The Audit Report of the Appraised Entity;
- III. Corporate Business Licenses of the Client and the Appraised Entity;
- IV. Major Ownership Proof Materials of the Valuation Target Involved;
- V. Letters of Undertaking of the Client and the Appraised Entity;
- VI. Letters of Undertaking of the Appraisal Institution and the Signatory Asset Valuer;
- VII. The Legal Person Business License of the asset appraisal institution;
- VIII. Announcement for the Record of asset appraisal institution;
- IX. Qualification Certificate of the Signatory Asset Valuer;
- X. The Asset Valuation Engagement Contract.

**ASSET VALUATION REPORT ON THE VALUE OF ALL EQUITY INTERESTS
HELD BY SHAREHOLDERS OF PUYANG CHINA NATIONAL BUILDING
MATERIALS PHOTOVOLTAIC MATERIALS COMPANY LIMITED
SUMMARY**

Jing Xin Ping Bao Zi (2022) No. 240

Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd. was engaged by Luoyang Glass Company Limited* to appraise the value of all equity interests of shareholders involved in the proposed transfer of equity by Luoyang Glass Company Limited, by way of adopting the cost approach (asset-based approach) and income-based approach and carrying out necessary valuation procedures in accordance with laws, administrative regulations and asset valuation standards while adhering to the principles of independence, objectivity and impartiality.

Details of the asset valuation are reported as follows:

CHAPTER I BASIC INFORMATION

I. THE CLIENT, APPRAISED ENTITY AND OTHER USERS OF THE VALUATION REPORT

(I) Overview of the Client

Name:	Luoyang Glass Company Limited*
Unified social credit code:	914103006148088992
Business term:	7 August 1996 to indefinite term
Legal Residence and Business Premises:	No. 9, Tang Gong Zhong Lu, Xigong District, Luoyang
Legal Representative:	Zhang Chong
Registered Capital:	RMB548,540,432
Nature of Company:	Joint-stock limited company (Taiwan, Hong Kong or Macau and domestic joint venture, listed company)
Business Scope:	Development, production, manufacture and installation of information display glass, new energy glass, photoelectric material for functional-glass category and its processed products and components, relevant materials, mechanical equipment and its electric appliances and accessories, relevant technical consultancy and technical services, as well as sales and after-sales services of self-produced products. (Projects that need to be approved according to law can only be operated after being approved by relevant departments).

(II) Overview of the Appraised Entity

Name:	Puyang China National Building Materials Photovoltaic Materials Company Limited
Unified social credit code:	9141030308685759XG
Business term:	11 December 2013 to 10 December 2033
Legal Residence and Business Premises:	Industrial Cluster Area in Puyang County
Legal Representative:	Ma Yan
Registered Capital:	RMB240 million
Nature of Company:	One-person limited liability company
Business Scope:	Production, processing and sale of solar thermal power glass, electronic glass and electronic information display glass; the processing of glass and the relevant raw materials; technical consultation and service for float glass, solar thermal power glass and photoelectricity information display glass. (Projects that need to be approved according to law can only be operated after being approved by relevant departments).

1. Shareholding structure

Puyang China National Building Materials Photovoltaic Materials Company Limited was established on 11 December 2013 by Luoyang Glass Company Limited* and fully funded by Luoyang Glass Company Limited* with 100% shareholding ratio.

In February 2017, the Company increased its registered capital by RMB239.5 million in accordance with the resolution of the general meeting, which was contributed by Luoyang Glass Company Limited*.

As of the valuation benchmark date of 31 December 2021, the shareholding structure is shown in the table below:

Name of shareholders	Capital contribution (RMB0'000)	Ratio of registered capital (%)
Luoyang Glass Company Limited	24,000.00	100
Total	<u>24,000.00</u>	<u>100</u>

2. *Main products and relevant production and sales*

Puyang China National Building Materials Photovoltaic Materials Company Limited is a wholly-owned subsidiary of Luoyang Glass Company Limited, a subsidiary of CNBM Group. The company has a 400t/d ultra-white photothermal material production line, and its main products are ultra-white glass, which are used in high-end decoration, automobile instrumentation and photovoltaic power generation backsheets. The company's revenue from 2020 to 2021 amounted to RMB96,121,361.06 and RMB311,575,441.28, respectively.

3. *Assets, liabilities and operation for the recent years*

Balance Sheet

Unit: RMB

Item	31 December 2018	31 December 2019	31 December 2020	31 December 2021
Current assets	134,839,317.73	239,621,300.52	108,303,459.53	176,383,394.55
Non-current assets	<u>342,953,883.92</u>	<u>561,496,340.49</u>	<u>633,973,091.44</u>	<u>601,043,200.66</u>
Total assets	<u>477,793,201.65</u>	<u>801,117,641.01</u>	<u>742,276,550.97</u>	<u>777,426,595.21</u>

Item	31 December 2018	31 December 2019	31 December 2020	31 December 2021
Current liabilities	196,061,696.09	311,886,276.56	117,984,301.36	158,076,997.45
Non-current liabilities	100,000,000.00	250,000,000.00	377,088,666.64	338,354,666.56
Total liabilities	296,061,696.09	561,886,276.56	495,072,968.00	496,431,664.01
Net assets	181,731,505.56	239,231,364.45	247,203,582.97	280,994,931.20

Income Statement

Unit: RMB

Item	2018	2019	2020	2021
Operating income	226,915.78	191,008.73	96,121,361.06	311,575,441.28
Operating costs	161,252.70	137,473.49	76,211,294.42	246,771,262.13
Taxes and surcharges	506,079.68	1,404,890.12	2,937,182.30	3,713,623.40
Selling expenses	–	–	107,426.84	383,316.74
Management expenses	4,539,207.42	2,428,981.06	7,211,571.41	10,331,079.40
R&D expenses	455,671.71	541,118.52	5,629,167.42	17,873,306.12
Finance costs	-4,833,590.24	-3,524,861.60	1,446,588.08	16,365,929.29
Operating profit	39,719.90	-794,821.11	10,641,627.74	33,930,977.89
Total profit	539,719.90	194,878.89	10,636,627.74	33,855,625.44
Net profit	539,719.90	194,878.89	7,972,218.52	33,791,348.23

The data in the financial statements of the appraised entity for 2018 and 2019 was audited by WUYIGE Certified Public Accountants LLP and the WUYIGE Shenzi [2020] No. 2–00517 audit report was issued; the data in the financial statements of the appraised entity for 2020 was audited by WUYIGE Certified Public Accountants LLP and WUYIGE Shenzi [2021] No. 2–10113 audit report was issued; and the data in the financial statements of the appraised entity for 2021 was audited by WUYIGE Certified Public Accountants LLP and [2022] No. 2–00512 audit report was issued.

(III) Relationship between the Client and Appraised Entity

The appraised entity is a wholly-owned subsidiary of the clients.

(IV) Other Users of the Valuation Report***1. Other users of the valuation report agreed in the asset valuation contract***

The asset valuation entrustment contract does not stipulate other users of the valuation report.

2. Users of the valuation report stipulated by laws and administrative regulations

Users of the valuation report stipulated by laws and administrative regulations shall be subject to the provisions of relevant laws and administrative regulations.

II. PURPOSE OF THE VALUATION

Luoyang Glass Company Limited intended to transfer its equity interests in Puyang China National Building Materials Photovoltaic Materials Company Limited. Therefore, Luoyang Glass Company Limited engaged Zhongjing Minxin (Beijing) Asset Appraisal Co., Ltd. to assess the value of all equity interests held by shareholders of Puyang China National Building Materials Photovoltaic Materials Company Limited, which forms the value reference of the share transfer for Luoyang Glass Company Limited.

III. VALUATION TARGET AND SCOPE

(I) The valuation target is the value of all equity interests held by shareholders of Puyang China National Building Materials Photovoltaic Materials Company Limited.

(II) The valuation scope covers all assets and liabilities of Puyang China National Building Materials Photovoltaic Materials Company Limited, including current assets, non-current assets such as fixed assets, construction in progress, intangible assets, and deferred income tax assets, other non-current assets and current liabilities and non-current liabilities. As of the valuation benchmark date, the book value of total assets, total liabilities and net assets amounted to RMB777,426,600, RMB496,431,700 and RMB280,994,900, respectively.

The book value of assets and liabilities included in the valuation scope is set out in the below table:

Unit: RMB0'000

Items	Book value
Current assets	17,638.34
Non-current assets	60,104.32
Including: Fixed assets	48,063.48
Construction in progress	246.13
Intangible assets	11,737.25
Deferred income tax assets	44.16
Other non-current assets	13.30
Total assets	77,742.66
Current liabilities	15,807.70
Non-current liabilities	33,835.47
Total liabilities	49,643.17
Net assets (Owners' equity)	28,099.49

The assets and liabilities included in the valuation scope have been audited by WUYIGE Certified Public Accountants LLP and the WUYIGE Shenzhi [2022] No. 2-00512 audit report has been issued.

(III) The entrusted valuation target and the valuation scope are consistent with the valuation target and the valuation scope involved in the economic behavior.

(IV) Main Physical Assets

The main physical assets of the appraised entity are inventories, buildings and structures, machinery and equipment, vehicles, electronic equipment and construction in progress.

1. Inventories

The book value of inventories was RMB92,990,342.33, which consisted of raw materials, products-in-process (self-made semi-finished products) and finished products, of which: raw materials were mainly common soda ash, common silica sand, cloud tin and UW silicon powder, etc.; products-in-process (self-made semi-finished products) were mainly glass liquor, etc.; finished products were mainly various types of UW silicon powder, etc.

2. Equipment

The book value of the equipment was RMB323,010,139.97, including machinery and equipment, electronic equipment and vehicles, of which: machinery and equipment mainly include electric furnace, tin bath, cold end system, raw material system, glass crushing system, etc.; electronic equipment mainly includes computers, printers and air conditioners, etc.; vehicle is a Buick business car, the purchase contract, invoice and vehicle license of the equipment are complete and the ownership is clear.

3. Buildings and structures

The book value of buildings was RMB134,647,041.70, with a total construction area of 69,804.10 m², mainly including homogenization workshop, raw material auxiliary workshop, office building, canteen, etc.; the book value of structures is RMB22,977,571.53, mainly including roads, pipeline network, chimneys, wells and water towers in the plant area. The buildings are located in the plant area of Puyang China National Building Materials Photovoltaic Materials Company Limited on the North of Guihua Station South Road, Chengguan Town, Puyang County, Puyang City, Henan Province, and west of No.5 Oil Production Plant of Zhongyuan Oilfield, with good maintenance. As of the benchmark date, no property right certificate has been issued.

4. Construction in progress

The book value of construction in progress was RMB2,461,289.97, which was the preliminary cost of the photoelectric materials research and development center project and project of photovoltaic cell encapsulating material for solar equipment.

(V) Intangible Assets

The book value of intangible assets was RMB117,372,534.98, including land use rights and other intangible assets.

The book value of land use rights was RMB117,312,735.27, representing five land use rights with a total land area of 299,339.17 m². The five land are as follows:

Land Ownership Certificate No. of Land I is Yu (2019) Puyang County Real Estate Ownership No. 0008239, which is located in the south of Tieqiu Road and the east of Daqing Road, Chengguan Town, Puyang County, Puyang City, Henan Province. The land is east to the purchased land, west to Daqing Road, south to the purchased land and north to Tieqiu Road, the nature of the land is transfer, the land use is business and financial land, and the area of the right to use is 7,355.60 m²;

Land Ownership Certificate No. of Land II is Yu (2019) Puyang County Real Estate Ownership No. 0016773, which is located in the north side of the Guihua Station South Road, Puyang County, Puyang City, Henan Province, and the west side of the No. 5 Oil Production Plant of Zhongyuan Oilfield, east to Puyang China National Building Materials Photovoltaic Materials Company Limited. The nature of the land is transfer, the land use is industrial land, and the area of the right to use is 102,672.39 m²;

Land Ownership Certificate No. of Land III is Yu (2018) Puyang County Real Estate Ownership No. 0003922, which is located in the north side of the Guihua Station South Road, Puyang County, Puyang City, Henan Province, and the west side of the No. 5 Oil Production Plant of Zhongyuan Oilfield, south to Zhannan Road, west to Puyang China National Building Materials Photovoltaic Materials Company Limited, north to Sunzhuang Village. The nature of the land is transfer, the land use is industrial land, and the area of the right to use is 102,796.28 m²;

The Land IV is located in the south side of Tieqiu Road and the west side of Guihua Xueshi Road of Chengguan Town, Puyang County, Puyang City, Henan Province, east to Guihua Xueshi Road, west to the purchased land, south to the purchased land, north to Tieqiu Road, the nature of the land is transfer, the land use is residential land, and the area of the right to use is 23,267.10 m²;

The Land V is located in the south side of Guihua South Road and the east side of Wenhua Road in Puyang County, Puyang City, Henan Province, east to No. 5 Oil Production Plant, west to Wenhua Road, south to Zhuangyuanhong Winery, north to Zhannan Road, the nature of land is transfer, the land use is industrial land, and the area of the right to use is 63,247.80 m².

The source of ownership of the appraised object is legal, the area is accurate, the four boundaries are clear and there are no boundary disputes. According to the person in charge of the appraised unit, the production line of the plant was constructed in two phases. At present, the construction of the first phase of the photothermal glass production line has been completed and put into use, and the land reserved on the west side of the plant is the land for the high-end photoelectric glass production line, which has yet to be commenced. The land reserved on the west side of the plant is for high-grade photoelectric glass production line and has yet to be commenced.

Other intangible assets with a book value of RMB59,799.71 consisted of Kingdee software and a patent for an invention. The name of the invention patent is a roller cleaning device with an original book value of RMB20,000.00 and a book value of RMB19,894.18, which was acquired by the enterprise.

(VI) Unrecorded Assets Included in the Valuation Scope

The assets that have been listed in the Valuation List of Assets provided by the appraised entity but not recorded in the book are 13 utility model patents and 9 invention patents, all of which are owned by Puyang China National Building Materials Photovoltaic Materials Company Limited.

(VII) Recorded Non-physical Assets Included in the Valuation Scope

No recorded non-physical assets are found in the Valuation List of Assets provided by the appraised entity.

IV. VALUE TYPE AND DEFINITION OF VALUATION

Through analysis on the purpose of the valuation and the understanding of the market conditions on which the valuation is based, the status of the valuation target itself, etc., we judge that the asset valuation does not have any special restrictions and requirements on the appraisal market conditions and the use conditions of the valuation target, so the market value is adopted as the value type of valuation conclusion.

The market value is the estimated value of the valuation target on the valuation benchmark date on which the transactions are conducted on arm's length basis by the voluntary purchaser and the voluntary vendor who act sensibly without being subject to any undue influence.

V. VALUATION BENCHMARK DATE

- (I) The valuation benchmark date for this project is 31 December 2021.
- (II) The above valuation benchmark date is selected by the client considering the realization of this economic behavior.

CHAPTER II BASIS OF VALUATION**I. BASIS OF ECONOMIC ACTIVITY**

Minutes of the Meeting of Luoyang Glass Company Limited.

II. BASIS OF LAWS AND REGULATIONS

- (I) Asset Appraisal Law of the People's Republic of China (passed at the 21st Meeting of the Standing Committee of the 12th National People's Congress on 2 July 2016);
- (II) Measures for Financial Supervision and Administration of the Asset Valuation Sector (amended in accordance with the Decision of the Ministry of Finance on the Amendment of Two Departmental Rules including the Measures for the Practice Licensing and Supervision and Administration of Accounting Firms (Order No. 97 of the Ministry of Finance of the People's Republic of China) on 2 January 2019);
- (III) Company Law of the People's Republic of China (amended at the 6th Meeting of the Standing Committee of the 13th National People's Congress on 26 October 2018);
- (IV) Civil Code of the People's Republic of China (passed at the 3rd Meeting of the 13th National People's Congress on 28 May 2020);
- (V) Law of the People's Republic of China on Enterprise Income Tax (amended for the second time in accordance with the Decision on Amending the Electricity Law of the People's Republic of China and other Four Laws passed at the 7th Meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018);

- (VI) The Detailed Rules for the Implementation of the Interim Regulations on Value-added Tax of the People's Republic of China (Order No. 65 of Ministry of Finance of the People's Republic of China and State Taxation Administration, amended in accordance with the Decision on Amending the Detailed Rules for the Implementation of the Interim Regulations on Value-added Tax of the People's Republic of China and the Detailed Rules for the Implementation of the Interim Regulations on Business Tax of the People's Republic of China on 28 October 2011);
- (VII) The Interim Regulations on Value-added Tax of the People's Republic of China (Order No. 691 of the State Council, amended for the second time in accordance with the Decision of the State Council on Repealing the Interim Regulations on Business Tax of the People's Republic of China and the Decision on Amending the Interim Regulations on Value-added Tax of the People's Republic of China on 19 November 2017);
- (VIII) The Notice of Comprehensive Roll-out of the Pilot Collection of Value Added Tax in lieu of Business Tax (Ministry of Finance and State Taxation Administration Cai Shui [2016] No. 36);
- (IX) Circular on Adjusting Value-added Tax Rates (Ministry of Finance and State Taxation Administration Cai Shui [2018] No. 32);
- (X) The Announcement on the Policies in relation to Deepening Value-added Tax Reform of the Ministry of Finance, State Taxation Administration and General Administration of Customs (Announcement No. 39 of 2019 of the Ministry of Finance, State Taxation Administration and General Administration of Customs);
- (XI) The Securities Law of the People's Republic of China (amended for the second time at the 15th Meeting of the Standing Committee of the 13th National People's Congress on 28 December 2019);
- (XII) The Patent Law of the PRC (amended for the fourth time at 22nd Meeting of the Standing Committee of the 13th National People's Congress on 17 October 2020);
- (XIII) The Vehicle Acquisition Tax Law of the People's Republic of China (passed at the 7th Meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018);
- (XIV) The Announcement on Matters Relating to the Administration of Vehicle Purchase Tax Collection (Announcement No. 26 of 2019 of State Taxation Administration);

- (XV) The Enterprise State-owned Asset Law of the People’s Republic of China (passed at the 5th session of the 11th Standing Committee of the National People’s Congress on 28 October 2008);
- (XVI) The Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 709 of the State Council);
- (XVII) The Administrative Measures for Valuation of State-owned Assets (Order No. 91 of the State Council, amended by Order No. 732 of the State Council of the People’s Republic of China);
- (XVIII) The Supervisory and Administrative Measures of the Transactions of Enterprise State-owned Assets (Order No. 32 of SASAC and the Ministry of Finance);
- (XIX) The Interim Measures for the Administration of Valuation of Enterprise State-owned Assets (Order No. 12 of the SASAC);
- (XX) The Notice on Matters Concerning Strengthening the Administration of State-owned Assets Appraisal of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
- (XXI) The Notice on Matters Concerning the Review of Valuation Report of the State-owned Assets of Enterprise (Guo Zi Chan Quan [2009] No. 941);
- (XXII) The Notice on Publishing the Guidelines for the Filing for Recordation of the Valuation Projects of Enterprise State-owned Assets (Guo Zi Fa Chan Quan [2013] No. 64);
- (XXIII) Risk Warning for Accounting Supervision No. 5 – Asset Appraisal of Listed Companies’ Equity Transaction (Zheng Jian Ban [2013] No. 6);
- (XXIV) The Law of the People’s Republic of China on the Administration of Urban Real Estate (passed at the 12th session of the 13th National People’s Congress on 26 August 2019);
- (XXV) The Land Administration Law of the People’s Republic of China (passed at the 12th session of the 13th National People’s Congress on 26 August 2019);
- (XXVI) Interim Regulations on Urban Land Use Tax of the People’s Republic of China (amended by Order No. 709 of the State Council of the People’s Republic of China);
- (XXVII) Other laws and regulations related to the valuation.

III. BASIS OF VALUATION CRITERIA

- (I) Asset Valuation Basic Standards (Cai Zi [2017] No. 43);
- (II) Code of Professional Ethics for Assets Assessment (CAS [2017] No. 30);
- (III) Terminology of Asset Appraisal Criteria 2020 (CAS [2020] No. 31);
- (IV) Asset Valuation Practicing Standards – Asset Valuation Procedures (CAS [2018] No. 36);
- (V) Asset Valuation Practicing Standards – Asset Valuation Reports (CAS [2018] No. 35);
- (VI) Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (CAS [2017] No. 33);
- (VII) Asset Valuation Practicing Standards – Asset Valuation Files (CAS [2018] No. 37);
- (VIII) Asset Valuation Practicing Standards – Using Expert Work and Related Reports (CAS [2017] No. 35);
- (IX) Asset Valuation Practicing Standards – Enterprise Value (CAS [2018] No. 38);
- (X) Asset Valuation Practicing Standards – Intangible assets (CAS [2017] No. 37);
- (XI) Asset Valuation Practicing Standards – Real Estate (CAS [2017] No. 38);
- (XII) Asset Valuation Practicing Standards – Machinery Equipment (CAS [2017] No. 39);
- (XIII) The Guidelines for the Enterprise State-owned Asset Valuation Reports (CAS [2017] No. 42);
- (XIV) Guidelines for Business Quality Control of Asset Valuation Institutions (CAS [2017] No. 46);
- (XV) Guidance on Value Type for Asset Valuation (CAS [2017] No. 47);
- (XVI) Guidance on Legal Ownership of Asset Valuation Target (CAS [2017] No. 48);
- (XVII) Asset Valuation Practicing Standards – Asset Valuation Methods (CAS [2019] No. 35);

- (XVIII) Guidelines on the Valuation of Patent Assets (CAS [2017] No. 49);
- (XIX) Guiding Opinions No. 8 from Asset Valuation Expert – Check and Verification in Asset Valuation (CAS [2019] No. 39);
- (XX) Guiding Opinions No. 12 for Asset Valuation Expert – Measurement of Discount Rates in the Valuation of Enterprise Values by the Income Approach (CAS [2020] No. 38);
- (XXI) Code for Real Estate Appraisal (National Standard GB/T50291–2015);
- (XXII) Regulations for Valuation on Urban Land (GB/T 18508–2014);
- (XXIII) Other valuation criteria and norms related to the valuation.

IV. BASIS OF ASSET OWNERSHIP

- (I) Driving license;
- (II) Certificates of State-owned Land-use;
- (III) Utility model patent certificates and invention patent certificates;
- (IV) Equipment purchase invoice and copy of contract;
- (V) Certificates and contracts provided by the finance department;
- (VI) Business property registration form;
- (VII) Other relevant proof of property rights.

V. PRICING BASIS

- (I) The published loan prime rate (LPR) authorized by the National Interbank Funding Center;
- (II) Certain equipment purchase contracts, invoices, etc. provided by the enterprise;
- (III) Financial statements and audit reports of previous years provided by the enterprise;
- (IV) Information on historical financial figures and future revenue forecast provided by the enterprise;

- (V) Information obtained from on-site inspection and industry survey from appraisal personnel;
- (VI) Professional car price information websites including chinacar.com.cn, and pcauto.com.cn;
- (VII) Specialized equipment trading price information websites including ZOL Zhongguancun Online IT Product Quotation and IT168-IT Mainstream Information Platform about on the valuation benchmark date;
- (VIII) Construction project material information published by Henan Engineering Cost Information Network and ZJTCN (WWW.ZJTCN.COM);
- (IX) Information on the market prices of construction materials, labor and machinery in Henan Province on the valuation benchmark date published by the platform of ZJTCN (WWW.ZJTCN.COM);
- (X) Data provided by WIND Financial Data Terminal;
- (XI) Other information related to the asset valuation.

VI. OTHER BASIS AND REFERENCES

- (I) Asset evaluation declaration form provided by the enterprise;
- (II) Accounting statements, books, contracts and vouchers provided by the enterprise on valuation date;
- (III) “Statement of the enterprise on matters relating to the valuation of assets” provided by the enterprise.

CHAPTER III VALUATION METHODS**SECTION I COST APPROACH (ASSET-BASED APPROACH)**

The cost approach (asset-based approach) refers to the general term for various valuation techniques that determine the value of the valuation target on the basis of a reasonable evaluation of the value of the assets and liabilities of the enterprise. The valuation scope includes current assets, fixed assets, projects under construction, intangible assets, deferred income tax assets, other non-current assets and current liabilities and non-current liabilities. The valuation methods mainly adopt the cost approach. The specific valuation methods for various types of assets are as follows:

I. CURRENT ASSETS

Current assets include monetary capital, receivables financing, prepayments, other receivables, inventories and other current assets.

(I) Monetary Capital

Monetary capital includes cash, bank deposits.

Cash: perform an on-site inventory, verify the cash balance on the valuation benchmark date using the reverse method, and check with the cash journal and general ledger cash account balance to determine the evaluation value with the verified amount.

Bank deposits: check the data obtained from the statement, balance adjustment statement and letter of confirmations with its book value, and determine the appraised value with the verified amount.

(II) Accounts Receivables

Accounts receivables include receivables financing, prepayments and other receivables.

Receivables financing: refers to bank's acceptance bills; determine whether there is a possibility of bad debts from bills receivable on the basis of consulting account books, investigating and understanding the relationship with the counterparty and the credit of the counterparty; determine the evaluation value of the bills receivable having become bad debts with evidence based on zero value, and determine the evaluation value of the normal bills receivable based on the verified book value.

Other receivables: carry out letter verification for continuing transactions, affiliates and large sums of money, and confirm the appraisal value with the verified book value in accordance with the letter verification; for internal personal payment, determine the appraisal value with the verified book value; for the money that has been confirmed as loss by conclusive evidence, determine the appraisal value by zero value; for other funds, investigate the credit and operation status of the counterparty, judge whether there is possible bad debt loss and estimate the amount of bad debt loss in combination with the account age, so as to verify the balance after deducting the estimated risk loss from the verified book value and confirm the evaluation value; for the bad debt provision, evaluate as zero since the risk loss problem has been considered in the evaluation.

Prepayments: carry out letter verification for large sums of money, determine the appraisal value according to the value of the corresponding assets recoverable or the corresponding rights realizable; for the funds that cannot recover the corresponding assets or realize the corresponding rights, determine the appraisal value by zero value.

(III) Inventory

The inventory of the evaluation includes raw materials, unfinished products (self-manufactured semi-finished products) and finished products (commodities in stock).

For raw materials with insignificant price changes, the verified book value is adopted as the appraisal value as the book value is close to the market value;

For raw materials with significant price changes, the appraisal value is calculated by multiplying the market purchase price with taxes excluded by the actual inventory quantity on the valuation benchmark date, which is adopted as a reference in the appraisal.

For unfinished products (self-manufactured semi-finished products), since it is difficult for the valuers to convert unfinished products into a certain number of finished products adopting the equivalent units method, the book value is adopted as the appraisal value after the verification of the book value.

For finished products (commodities in stock), the appraisal value is calculated according to the following formula (where part of the profit is determined in accordance with the sales situation):

Appraisal value = inventory quantity × ex-factory unit price without tax × [1- (all taxes + sales expenses + partial profits)/sales revenue]

(IV) Other Current Assets

For the input VAT deductible, prepaid taxes and deferred expenses, the valuers have reviewed the VAT returns and relevant bookkeeping vouchers, and the verified book value is recognized as the appraisal value.

II. EQUIPMENT***(I) Selection of Valuation Methods:***

The valuation targets are machinery and equipment, electronic equipment and vehicles.

In accordance with the Practice Guidelines for Asset Valuation – Machinery and Equipment, the assessment of machinery and equipment shall generally be carried out by the cost approach, market approach and income approach. Appropriate approaches shall be adopted based on the relevant conditions such as the valuation target, value type and information collection.

The market approach is a valuation methodology which determines the value of the valuation target by comparing the valuation target with the existing transaction cases in the market and revising the comparative factors. The basic condition of using the market approach is that a more active trading market is needed, and the comparable indicators and parameters of the market cases and the valuation target can be collected and quantified. Due to difficulties in collecting detailed information of the case and the inability to understand the details of the transaction, market approach is not adopted.

The income approach refers to the valuation methodology which determines the value of the valuation target by capitalizing or discounting the expected revenue of the appraised assets. When using the income approach for assessment, the valued asset must have independent profitability or its profitability can be quantified, and the future income period can also be reasonably quantified. Due to the failure of quantifying the income of the machinery and equipment and other fixed assets in this assessment, income approach is not adopted.

The cost approach is resorting to reproduction or replacement of the valued assets. The price that any potential investors are willing to pay upon their decision of investment in certain assets shall not exceed the current construction cost of the assets during the acquisition and construction. This assessment project satisfies the conditions required for the cost approach, i.e. the valued assets are in the condition for continuing use or assumed to be in the condition for continuing use with available historical information, thus cost approach is adopted.

The cost approach of fixed assets of equipment is to determine the appraised value of equipment by estimating the replacement cost of the new equipment and then deducting the physical depreciation, functional depreciation and economic depreciation, or based on the comprehensive determination of the newness rate. The basic calculation formula of cost approach is as follows:

$$\text{Assessed value} = \text{replacement value} \times \text{newness rate}$$

(II) Valuation Methods:

1. Determination of replacement costs of machinery and equipment

The replacement cost of equipment generally includes all direct costs and reasonable indirect costs required for re-purchasing or building new assets with the same efficacy of the evaluation subject, such as purchase price of equipment (ex-factory price of equipment), transportation and miscellaneous cost, installation and commissioning cost, equipment foundation costs, etc.

The calculation formula of the replacement cost of machinery and equipment is as follows:

$$\begin{aligned} \text{Replacement costs} = & \text{purchase price of equipment} + \text{transportation and miscellaneous} \\ & \text{cost} + \text{installation and commissioning cost} + \text{foundation cost} + \text{joint commissioning} \\ & \text{cost} + \text{preliminary cost} + \text{capital cost} - \text{deductible input value-added tax} \end{aligned}$$

Since some projects, such as renovation of workshop and other structures, which are reflected in the listing of the machinery and equipment, has already been included in the assessment of the buildings and structures, the appraised value will not be calculated repeatedly in the equipment this time.

In determining the replacement cost of equipment, the cost of transportation and miscellaneous cost, installation and testing cost, equipment foundation costs as stipulated in the prevailing market selling price of the equipment shall not be calculated repeatedly.

(1) Determination of purchase price of equipment

Valuers determine the replacement cost with appropriate adjustments by directly inquiring the sellers or the manufacturers about the prices, or referring to the price lists provided by various distributors, recent price information (2021 version of the Mechanical and Electrical Products Price Information Query System (《機電產品價格信息查詢系統》)), the price information published on the internet (Alibaba, Makepolo, Chuli, China.cn and other websites) and considering the possible floating factors. In the event that the equipment is no longer available for sale in the current market or the purchase price is unavailable, and where alternative standard equipment and general equipment has been available, corresponding adjustments are determined through market inquiry and review of the relevant price manual while fully considering the alternatives.

(2) Determination of transportation and miscellaneous cost

Transportation and miscellaneous cost refers to the loading and unloading, transportation, storage and insurance incurred before the equipment arrives at the place of use, which is generally calculated by a certain ratio of the purchase price of the equipment. The calculation formula is as follows:

Transportation and miscellaneous cost = purchase price of the equipment with taxes included \times rate of transportation and miscellaneous cost

Turnkey project equipment includes transportation and miscellaneous cost.

(3) Determination of installation and commissioning cost

With reference to the Manual of Data and Parameters Commonly Used in Asset Appraisal, an appropriate fee rate is adopted.

Installation and commissioning cost = purchase price of the equipment with taxes included \times rate of installation and commissioning cost

(4) Determination of foundation cost

With reference to the Manual of Data and Parameters Commonly Used in Asset Appraisal, an appropriate fee rate is adopted.

Foundation cost = purchase price of the equipment with taxes included \times rate of foundation cost

The foundation of the equipment has been considered separately in the part of the building and structures, and will not be calculated repeatedly.

(5) Determination of joint trial operation cost

For the evaluation of the value of the production line, after the completion of the testing of the independent equipment, the operation of all equipment on the production line shall be connected and adjusted and an appropriate fee rate should be adopted.

Joint trial operation cost = purchase and installation price of the equipment \times rate of joint trial operation cost

(6) Preliminary cost

Preliminary cost includes management cost of the contractor, cost of investigation and design, cost of construction supervision and agent service cost for bidding. The relevant rate of preliminary cost shall be recorded according to the rate corresponding to the overall investment scale of the special glass production enterprise.

The calculation formula of preliminary cost is as follows:

Preliminary cost = (purchase price of the equipment with taxes included + transportation and miscellaneous cost + installation cost + foundation cost) \times rate of preliminary cost

(7) Capital cost

According to the loan interest rate corresponding to the valuation benchmark date and the reasonable construction period, it shall be evenly invested according to the purchase price of the equipment, transportation and miscellaneous cost, foundation cost, installation and commissioning cost and preliminary and other cost. The calculation formula is as follows:

$$\text{Capital cost} = (\text{purchase price of the equipment with taxes included} + \text{transportation and miscellaneous cost} + \text{installation cost} + \text{foundation cost} + \text{preliminary cost}) \times \text{reasonable construction cycle} \times \text{loan interest rate}/2$$

(8) Deductible input value-added tax

The appraised entity is a VAT-based general taxpayer. According to the relevant provisions of the “Notice on Adjusting Value-Added Tax Rates” (Caishui [2019] No. 39) issued by the Ministry of Finance and the State Administration of Taxation (《財政部稅務總局關於調整增值稅稅率的通知》財稅[2019]39號), the purchased production equipment is subject to the deductible input tax. The calculation formula is as follows:

$$\begin{aligned} \text{Deductible input value-added tax} = & (\text{purchase price of the equipment}/1.13 \times 13\%) \\ & + (\text{transportation and miscellaneous cost}/1.09 \times 9\%) + (\text{installation and} \\ & \text{commissioning cost}/1.09 \times 9\%) + (\text{foundation cost}/1.09 \times 9\%) + ((\text{preliminary} \\ & \text{cost} - \text{management cost})/1.06 \times 6\%) \end{aligned}$$

General equipment mainly refers to the equipment price of which is relatively low in value and common in the market. As most of these types of equipment are common equipment, the transportation and miscellaneous cost, installation and commissioning cost are included in the purchase price of equipment and are not separately calculated. The calculation formula of replacement cost is as follows:

$$\text{Replacement cost (excluding tax)} = \text{replacement cost of equipment with taxes included} - \text{deductible input value-added tax}$$

2. *Determination of replacement costs for vehicles*

The replacement cost of vehicles is determined according to the market price of a vehicle with the same model number, the same basic configuration on the valuation benchmark date, plus vehicle purchase tax and other reasonable cost (such as license fees). The basic calculation formula of replacement cost is as follows:

Replacement cost = vehicle purchase price + vehicle purchase tax + other cost of vehicle – deductible input value-added tax

3. *Determination of replacement costs of electronic equipment*

The replacement cost of electronic equipment is determined by inquiring the quotation from the distributors and “ZOL Zhongguancun Online IT Product Quotation” (《ZOL 中關村在線IT產品報價》), “IT168-IT mainstream information platforms” (《IT168-IT主流資訊平台》) and other professional electronic equipment price information websites. For the replacement cost of equipment purchase price of which cannot be obtained by inquiries from market, manufacturer and relevant price data, shall be determined by the purchase price of similar equipment inquired through the above-mentioned methods with analogy approach and the adjustment based on the variation of the equipment. The calculation formula of replacement cost is as follows:

Replacement cost = purchase price of the equipment – deductible input value-added tax or

Replacement cost = purchase price of the equipment with taxes excluded (rounding)

(II) *Determination of Newness Rate*

1. The newness rate of important machinery and equipment is determined by observation approach (i.e. investigation scoring approach), combined with service life approach.

Newness rate = newness rate under the service life approach × 40% + newness rate by observation approach × 60%

Observation approach is the judgment made by the valuer based on experience on the technical status and extent of deterioration of the subject matter (such as vibration, noise, temperature, processing precision, production capacity, energy consumption and failure).

The weight of the determination of newness rate under the service life approach is 40%, and the weight of the determination of newness rate by observation approach is 60%, of which the calculation formula of newness rate under the service life approach is as follows:

$$\text{Newness rate under the service life approach} = \frac{\text{Economic service life} - \text{Serviced life}}{\text{Economic service life}} \times 100\% \quad \text{or}$$

$$\text{Newness rate under the service life approach} = \frac{\text{Durable years}}{\text{Durable years} + \text{Serviced life}} \times 100\%$$

The “durable years” in the formula is the professional judgment made by the valuer based on the actual technical condition of the machinery and equipment taking into account the effective age of the machinery and equipment. The value of “durable years” shall be positive.

2. For general and smaller value equipment, newness rate is determined primarily using the service life method. For that equipment featuring short life-span, rapid change in price and substantial functional depreciation, the newness rate is determined according to a combination of factors including the economic service life of equipment and the technical upgrading cycle of products.

$$\text{Newness rate} = \text{Newness rate under the service life approach} = \frac{\text{Economic service life} - \text{Serviced life}}{\text{Economic service life}} \times 100\%$$

When the technological conditions of the equipment deviate significantly, causing a great difference between the actual newness rate and the newness rate under the service life approach, the newness rate shall be calculated according to the following formula:

$$\text{Newness rate} = \text{Newness rate under the service life approach} = \frac{\text{Durable years}}{\text{Durable years} + \text{Serviced life}} \times 100\%$$

3. Electronic equipment is a kind of common equipment with small value, in which the newness rate is mainly determined by the service life approach, i.e. according to a combination of factors including the economic service life of equipment and the technical upgrading cycle of products. The formula for determining the newness rate based on the service life is:

$$\text{Newness rate under the service life approach} = \frac{\text{Economic service life} - \text{Served life}}{\text{Economic service life}} \times 100\%$$

4. Determining the newness rate of vehicles

(1) Theoretical newness rate

According to the principle advocated by the Notice on Certain Regulations of the Adjustments of Standards for Scrap Automobiles (Guo Jingmao Ziyuan [2000] No. 1202) (《關於調整汽車報廢標準若干規定的通知》(國經貿資源[2000]1202號)) issued by the State Economic and Trade Commission, the State Development Planning Commission, the Ministry of Public Security and the State Administration of Environmental Protection and the Notice on Issues Regarding the Implementation of the Notice on Certain Regulations of the Adjustments of Standards for Scrap Automobiles (Gong Jiao Guan [2001] No. 2) (《關於實施〈關於調整汽車報廢標準若干規定的通知〉有關問題的通知》(公交管[2001]2號)) issued by the Ministry of Public Security, for non-operating small and mini passenger vehicles, large sedans, etc., the Provisions on the Criteria for Compulsory Discard of Motor Vehicles (Order [2012] No. 12 jointly issued by the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection) has to be referred to in relation to the vehicles with no age limit, including non-operating small and mini passenger vehicles, large sedans and self-propelled wheeled machines, such that the theoretical newness rate is determined by vehicle mileage.

$$\text{Newness rate under the service life approach} = \frac{\text{Designated serviced life} - \text{serviced life}}{\text{Designated serviced life}} \times 100\%$$

$$\text{Mileage-based newness rate} = \frac{\text{Designated mileage} - \text{Mileage already traveled}}{\text{Designated mileage}} \times 100\%$$

(2) Observed newness rate

The observed newness rate is determined based on the scoring of the analysis of the actual conditions of the vehicle or technical status and extent of deterioration, such as vibration, noise, temperature, processing precision, production capacity, energy consumption and failure.

(3) Comprehensive newness rate

The formula of the comprehensive newness rate of vehicles is:

$$\text{Comprehensive newness rate} = \text{theoretical newness rate} \times 40\% + \text{observed newness rate} \times 60\%$$

III. BUILDINGS AND STRUCTURES

(I) *Selection of Valuation Method*

According to the Practicing Guidelines for Asset Valuation – Real Estate (《資產評估執業準則—不動產》), Code for Real Estate Appraisal (《房地產估價規範》 (China National Standard (GB/T 50291–2015)) (for determining the Real Estate Valuation System) and Standard for Basic Terminology of Real Estate Valuation (GB/T 50899–2013) (《房地產估價基本術語標準》) (for determining the description of real estate valuation), the generally accepted valuation methods for real estate valuation include market comparison approach, income approach, cost approach and hypothetical development method. The selection of valuation methods should be based on the specific characteristics of the subject to be evaluated, the surrounding market conditions and the applicability and the viability of the valuation method.

The market comparison approach is an approach to evaluate the value or price of an object through processing the transaction price of comparable cases based on the differences between them after selecting a certain number of comparable cases for the evaluation object. The basic conditions for using the market comparison approach are: a relatively active trading market is necessary; market cases and comparative indicators and parameters can be collected and quantified against an evaluation object. Since the buildings authorised to be evaluated are industrial properties developed by enterprises for their own use and there are relatively few transaction cases in the market for such properties, it is not appropriate to adopt the market comparison approach.

The income approach is a method to estimate the future income of the object by using a return rate or a capitalisation rate or income multipliers to estimate the value or price of the object. When using the income approach for assessment, the valued asset must have independent profitability or its profitability can be quantified, and the future income period can also be reasonably quantified. Since the rental income cannot be directly obtained as there are no similar housing rental cases in the market in this assessment, it is not appropriate to adopt the income approach.

The methodology of the cost approach is that in terms of reconstructing or replacing of an assessed asset, the price that any potential investors are willing to pay shall not exceed the current construction cost of the assets upon their decision of investment in certain assets. For industrial properties, this evaluation meets the condition required for the cost approach evaluation, that is, the assessed asset continues to be in use or being assumed to be continuing in use, the construction and installation fees can be calculated and accumulated on a case by case basis with reference to objective criteria, coupled with the fact that the relevant quota standard are well-established. Hence, it is appropriate to adopt the cost approach.

In conclusion, the cost approach is adopted for this evaluation of the buildings and structures included in the scope of the asset valuation based on the evaluation objective, use of assets, actual survey situation, and information available.

(II) Valuation Methods

The cost approach is to obtain the replacement cost of the valuation target at the valuation benchmark date, after deducting depreciation, to estimate an objective and reasonable value for the valuation target. Among them, the replacement cost is the normal value of the buildings, in its new state and with the same function as the valuation target, at the price level at the valuation benchmark date, using construction materials and construction techniques at valuation benchmark date.

Calculation formula is: Estimated value = replacement cost × comprehensive newness rate

1. Determination of Replacement Costs

Replacement costs = preliminary cost + construction and installation cost + capital costs – input value-added tax

(1) Construction and installation cost

The cost of construction and installation is generally determined by the method of work settlement adjustment method, analogy method and index adjustment method.

1) Work settlement adjustment method

Reconstruction of work settlement adjustment method is based on the as-built information, drawings and final account information of the project to be estimated. The original work (budget), final account price is adjusted. Therefore, the based original (budget) final account price, and the work cost is comprehensively estimated to the level at valuation benchmark date through adjusting the difference among the existing local construction materials, labour and machinery unit price.

2) Analogy method

The analogy method is to obtain the price of construction and installation works based on recent cases with similar structural characteristics, construction floor area (size), number of floor, story and decoration level, etc.

3) Index adjustment method

That is, based on the reviewed price of the construction works provided by the appraised entity, to adjust the impact on the price of construction works due to price changes in labour and construction materials during the period from the construction date to the valuation benchmark date, by using the relevant construction price index, to estimate the construction cost of the construction and installation work. For those buildings and structures which lack information for settlement audit or final account audit once completion, and do not have comparative building and structure comparative information, the adjustment method is generally used.

As final account information is not provided by the appraised entity, the analogy method is adopted for this evaluation of the construction cost of the construction and installation work.

(2) Preliminary costs and other expenses

Preliminary cost includes agent service cost for construction bidding, cost of investigation and design for construction, cost of construction supervision, etc.; other expenses include management cost of the contractor and others. Based on asset sizes reported by an enterprise at valuation benchmark date, the preliminary fee and other fees will be determined according to the requirements of Ministry of Construction and the local government.

(3) Capital costs

The capital costs are the normal funding costs or the capital opportunity cost for the construction works period and is based on the construction cost and preliminary cost and other expenses. It is assumed that the capital is equally invested when the building and structures are reconstructed, and the interest rate is calculated based on the loan prime rate (LPR) at the valuation benchmark date.

(4) Input value-added taxes

To distinguish preliminary costs and construction and installation cost according to the “Notice on the Comprehensive Launch of the Pilot Program for the Change from Imposing Business Tax to Value-added Tax” (Caishui [2016] No. 36) and the “Announcement on the Policies in relation to Deepening Value-added Tax Reform of the Ministry of Finance, State Taxation Administration and General Administration of Customs” (Announcement No. 39 of 2019 of the Ministry of Finance, State Taxation Administration and General Administration of Customs), and calculate the input tax based on the provision of the law of value-added tax, and deduct from cost including tax.

2. *Determination of Newness Rate*

For buildings, the newness rate is determined by using two methods, namely scoring method and service life method, respectively. For the valuation target, the newness rate is determined by the comprehensive newness rate through taking weights of results of these two methods. For structures, the newness rate is assessed by using service life method directly in this valuation.

(1) Scoring method:

With reference to the proportion of each part to the cost of the building, which includes structural elements of the building, like foundation, load structure, facade, estate surface and floor structure, decoration parts like internal and external walls, and equipment parts like doors, windows and ceilings, toilet, the standard score is determined. Then, scores will be given based on on-site survey. The full score rate will be determined based on the scoring. The calculation formula is:

Newness rate = Total scores of structural part \times weight of structural part + total scores of decoration part \times weight of decoration part + total score of equipment part \times weight of equipment parts

(2) Service life approach:

Based on the durability and useful life of the building and structures, the newness rate of them are determined based on the following formula:

$$\text{Newness rate} = 1 - (\text{served years/durable years}) \times 100\%$$

3. *Comprehensive newness rate:*

The weighted rate of return calculated by the service life approach is 0.5 and the weighted rate of scoring method is also 0.5.

$$\begin{aligned} \text{Comprehensive newness rate} &= 0.5 \times \text{newness rate under service life approach} + 0.5 \\ &\times \text{newness rate under scoring method} \end{aligned}$$

IV. CONSTRUCTION IN PROGRESS

The construction in progress is a civil engineering project. The valuers conduct on-site inspection for the construction to understand the on-site progress; inspect the construction contracts to understand the agreed terms and construction fees of the contracts; verify the book record to understand the detailed structure of the paid construction cost, analyze whether the expenses for construction cost is normal, and understand whether there is any case of outstanding payment or overpayment according to the project progress; review the project feasibility study report and approval, preliminary design and approval, construction land planning permit, construction project planning permit, construction project construction permit and other documents to understand the progress of approval of the project.

Construction in progress constitutes the preliminary cost for the project of photoelectric material R&D center and the project of photovoltaic cell packaging materials for solar equipment. There are no physical entities in the cost-only category of projects in progress. After verification, the payment incurred is necessary for the commencement of future construction projects. The verified book value is regarded as the appraised value, provided that there is no repetitive valuation and no unreasonable expenditure is incurred in connection with the associated asset project.

V. INTANGIBLE ASSETS – LAND USE RIGHTS**(I) Selection of Valuation Methods**

The subject land is the land to be transferred with statutory uses as commercial and financial land, industrial land and residential land. According to the Practicing Guidelines for Asset Valuation –Real Estate and the Regulations for Valuation on Urban Land (《城镇土地估价规程》), and in consideration of the purpose of the valuation and the specific circumstances of the subject land, industrial land will be assessed through cost approximation approach and the evaluated results will be applied as the appraised value.

(II) Inappropriate Valuation Methods**1. Market comparison approach**

In recent years, there are less commercial lands available around the area where Land I is located and therefore, it is not suitable to adopt the market comparison approach for the valuation of Land I. There are more lands for the same use available around the area where Land II to V are located. However, the unit sale price of the lands is lower than the unit acquisition cost of the lands, and since Puyang county has not published the map for benchmark land price (grading area), it is not possible to know the level of the lands entrusted to be appraised, and therefore, it is not suitable to adopt the market comparison approach for the valuation of Land II to V.

2. Benchmark land price coefficient correction approach

Notice on Urban Land Grade and Benchmark Land Premium in Puyang County (Puyang Zheng Wen [2020] No. 76) announced by Natural Resources Bureau of Puyang County in November 2020, which only announced the benchmark land price map, did not specify the value content of the benchmark land price, and did not announce the revision system of the benchmark land price and the classification scope of level of land for different use. It is not appropriate to adopt the benchmark land price coefficient correction approach for the valuation.

3. *Hypothetical development method*

According to the Regulations for Valuation on Urban Land, hypothetical development method may be applied to the valuation of land with investment development or re-development potential, and is applicable to the valuation of land for real estate to be developed or for real estate to be re-developed after demolition and renovation. Land I is commercial and financial land to be developed and Land IV is residential land to be developed. However, the projects have not obtained clear planning conditions and there are restrictions on the development conditions, so the revenue to be obtained cannot be predicted and does not meet the application conditions and scope of application of the hypothetical development method, and therefore, the hypothetical development method is not applicable to the valuation; Land II, III and V are industrial land to be developed. There were few cases of sale and lease of industrial properties after development, so the value upon completion of development cannot be accurately predicted and therefore, it is not appropriate to adopt the hypothetical development method for the valuation.

4. *Income approach*

Since the annual total revenue and annual total cost of the land could not be obtained objectively, and since there were few transactions in the land rental market and real estate rental market in the area, the total revenue of the land subject to valuation could not be reasonably determined by the rental level in the area. In addition, as there were differences in the continuity, objectivity and validity of the revenue of the land divested through operating revenue, it was not appropriate to adopt the income approach for the valuation.

5. *Cost approximation approach*

Cost approximation approach is a method which uses the cost components spent on land development to evaluate the value of the land. It is mainly applicable to industrial land, special land valuation, especially for land with undeveloped land market and lack of transaction cases, which cannot be valued by adopting other methods. The valuers were able to collect information on the compensation standards for the expropriation of collective land in the area where the subject of the appraisal is located, and could obtain objective statistical data on the expropriation of collective land in the area, so the cost approximation approach was used to evaluate industrial Land II, III and V. However, Land I, which is commercial and financial land, and Land IV, which is a residential land, the cost approximation approach cannot reflect the value of the lands and is not suitable to be adopted for valuation.

In conclusion, based on the information provided by the appraisal entrusting party and the actual situation of the lands to be appraised, cost approximation approach can be applied to the appraisal of industrial Land II, III and V. As Land I and Land IV are commercial and financial land and residential land, respectively, cost approximation approach is not applicable. There is also limitation in development (it is not permitted to conduct transaction with third party other than employees of CNBM Group) and hence the sum of the original acquisition cost and loan interest during the holding period was adopted as the valuation in this appraisal.

(III) The connotation and formula of the selected assessment approach

The cost approximation approach is the valuation method mainly based on the sum of various expenses incurred during the land development, plus certain profits, interests, tax payables and land appreciation revenue to determine the land price.

As the land price should be determined by other factors in accordance with the location of the area where the appraised object is located and the conditions of the land to determine the land price, the appraisal is subject to annual revision and adjustments due to regional and individual factors. Cost approach formula in this appraisal:

$$P = (E_a + E_d + T + R_1 + R_2 + R_3) \times (1 + Q) \times K$$

Where, P— Price of appraised target;

E_a— Land acquisition cost;

E_d— Land development cost;

T— Tax;

R₁— Interest;

R₂— Profit;

R₃— Land appreciation;

Q— Revision for individual factors;

K— Term revision coefficient

VI. INTANGIBLE ASSETS – OTHER INTANGIBLE ASSETS

Other intangible assets are outsourced software and patents.

For outsourced software, market price method is adopted in this valuation. For outsourced software with no upgrade version sold on the market on the valuation benchmark date, the valuation is determined based on market price of similar software on the valuation benchmark date. For outsourced software with upgraded version sold in the market, the valuation is determined based on market price less software upgrade fee.

The patents of the Company include 13 patents for utility model and 10 patents for invention. For intangible asset, there are three ways of valuation. For the intangible assets, there are three valuation methods, namely, the replacement cost method, the market comparison approach and the income capitalization approach. It is generally believed that it is difficult to reflect the value of intangible assets by replacement cost as the value of such assets is usually expressed mainly in the creative intellectual work of scientific and technological talents, and the results of such work are difficult to be measured by labor cost. For the market comparison approach, the prerequisite is that there should be identical or similar transaction cases and the transactions should be at arm's length. Based on the characteristics of the intangible asset in the valuation and the situation of the transaction in the market, and according to our market survey and relevant introductions, there are no similar transfer cases within the PRC, and the market comparison approach is not applicable to this valuation as no comparable historical transaction cases and transaction price data can be found. Due to the limitations of the above valuation methods, we decided to adopt the income capitalization approach, taking into account the characteristics of the intangible assets in this valuation. The income capitalization approach refers to a method of determining the value of an appraisal object by analyzing its expected future business revenue, and the discounted value of cash flows created by the intangible assets is used to determine the fair market value of the appraised intangible assets.

The calculation formula for the evaluation of the intangible assets is as follows:

$$V = \sum_{t=1}^n \alpha F_t / (1 + Ri)^t$$

Where, V— Evaluation value

F_t— Future income

α — Share rate of income

t — Number of years in the useful life

n — Economic useful life

Ri — Discount rate

VII. DEFERRED INCOME TAX ASSETS

Deferred income tax assets are the amount arising from provision for bad debt recognised by the appraised entity as per accounting policies that affects income tax due to a difference in timing.

In the evaluation, first of all, the reasonableness of the provision, the accounting method of deferred income tax, the applicable tax rate, the period of interest, etc., are verified to judge whether the deduction of income tax can be realized in the future; then the debt assets involved are evaluated according to evaluation requirements, and provisions for bad debt are treated with zero value; and finally the evaluation result is compared with the original carrying amount to assess the risk losses identified, and to adjust the book entry of the deferred income tax assets, so as to obtain the evaluation value.

VIII. OTHER NON-CURRENT ASSETS

Other non-current assets are prepayments of financial software purchases. The valuers reviewed the corresponding contracts, understood and collected information on payment progress and payments, and asked the relevant personnel of the enterprise about the progress of the project, and confirmed the valuation with the verified book value.

IX. LIABILITIES

Liabilities are current liabilities and non-current liabilities, including short-term borrowings, accounts payable, contract liabilities, staff remuneration payable, taxes payable, other payables, non-current liabilities due within one year, other current liabilities, long-term borrowings and deferred income. In the evaluation, the business, carrying amount, date of occurrence, cause of formation, the company's recognition basis and the agreed repayment period and method of major amounts of all types of liabilities are investigated and verified; the main content, provision basis, provision method, provision amount, etc., of all types of expected liabilities are reviewed; for significant liabilities, necessary investigations or inquiries are conducted to related personnel or the counterparties; and necessary analysis on the likelihood of performance of liabilities is conducted to confirm whether there are debts not required to be settled or provisions not required to pay.

With full consideration of the authenticity of its debts and obligations, the verified amount of liabilities is regarded as the evaluation value.

SECTION II INCOME APPROACH

Income approach is an asset assessment approach by estimating the expected income of the valued asset in the future and discounting to its present value in order to determine the asset valuation.

The asset valuation determined by the income approach refers to the total amount of currency paid to obtain the expected income right to receive the asset. The appraised value of the assets is highly correlated to the effectiveness and the application of such assets. The value of an asset is proportional to its effectiveness, profitability and value.

Application of the income approach to evaluate assets shall be subject to the following prerequisites:

- The assets entrusted to be appraised shall be continuously used according to the specific purposes, income periods can be determined;
- there is a stable relationship between assets entrusted to be appraised and business income;
- the future operating income can be correctly predicted and measured;
- and the risk return related to the expected income can be estimated and measured.

The calculation formula of income approach is as follows:

$$P = \sum_{t=1}^n \frac{R_t}{(1+r)^t}$$

Where, P—Valuation

n—Income period

R_t—Expected income for the t year

r—discount rate

I. ASSESSMENT TECHNOLOGY IDEA

Free cash flow modeling is adopted for this assessment of the income approach, in which the expected income (R_t) is the cash flow generated from the entire investment capital of the Company (for all shareholders' equity and interest-bearing debt). The value of total equity of shareholders is based on the free cash flow of the Company for several years in the future, then discounting it to the value of operating assets at appropriate discounting rate, adding the value of non-operating assets, surplus assets value, less non-operating liabilities and the interest-bearing debts.

The calculation formula is:

The value of total equity of shareholders = free cash flow discount value of the enterprise + value of non-operating assets – non-operating liabilities + surplus assets value – interest-bearing debts

II. FREE CASH FLOW DISCOUNT VALUE OF THE ENTERPRISE

Based on the characteristics of the Company, free cash flow discount value of the enterprise this time includes the discounted value of the ultimate enterprise value during the specific forecast period and the discounted value of free cash flow after the specific forecast period. The formula is as follows:

Discounted value of free cash flow = discounted value of free cash flow during the specific forecast period + the ultimate discounted value after the specific forecast period

(I) Specific forecast period

CNBMG (Puyang) Photoelectric Material Co., Ltd was established in December 2013. It has an ultra-white solar thermal materials production line with melting capacity of 400 tons per day, mainly producing ultra-white glass which is used in high-grade decoration, automobile dashboard and photovoltaic power generation back plate. After considering the production capacity of the enterprise, the macroeconomics and the change in demand of the market, specific forecast period was set at 2026.

(II) Income period

Since the business operation is stable and no operating period obstacles that cannot be overcome have been identified, the earnings period is determined on a perpetual basis.

(III) Free cash flow of the enterprise

The calculation formula of free cash flow of the enterprise is as follows:

Free cash flow of the enterprise = Profit before tax \times (1– Income tax rate) + depreciation and amortization + interest (after tax) – capital expenditures – increase in operating capital = revenue from principal businesses – cost of principal business + profit of other business – tax and surcharge – cost incurred during the period (administrative expenses, selling expenses, research and development expenses, finance costs) + investment income + non-operating income – non-operating expenses – income tax + depreciation and amortisation + interest (after tax) – capital expenditure – increase in operating capital

(IV) Discount rate

According to the principle of consistent basis for the income amount and the discount rate, the basis to determine the income amount for this valuation is the cash flow of the enterprise and the weighted average cost of capital (WACC) is chosen as the discount rate.

Formula:

$$WACC = K_e \times \frac{E}{D + E} + K_d \times \frac{D}{D + E} \times (1 - T)$$

Where: K_e : cost of equity capital;

K_d : debt capital cost;

E: equity capital;

D: debt capital;

D+E: invested capital;

T: Income Tax Rate

III. NON-OPERATING ASSETS

represent assets that have no direct link to the operating income of the enterprise and value of which is not included in the conclusion of income approach.

IV. NON-OPERATING LIABILITIES

represent liabilities that have no direct link to the income generated from operating activities of the enterprise and value of which is not included in the conclusion of income approach.

V. SURPLUS ASSETS

Surplus assets represent superfluous assets that have no direct link to and exceed the required amount for the operation of the enterprise.

VI. INTEREST-BEARING DEBT

Interest-bearing debts refer to the debts that are interest-bearing on the book on the valuation benchmark date.

**CHAPTER IV IMPLEMENTATION PROCESS AND
STATUS OF VALUATION****I. PRE-INVESTIGATION**

After receiving the notice from the client, the Company shall arrange for the relevant responsible person to communicate with the person in charge and relevant personnel of the client and the appraised entity, and conduct appropriate investigation, to understand the purpose of the valuation and the economic behavior, target and scope of the valuation, to understand the basic information of the valuation target, the specific types, distribution and characteristics of the assets included in the scope of assessment, to understand the industry, legal environment and accounting policies of the enterprise, and to understand the client's consideration of the valuation benchmark date and the requirements for the completion date of the report. After comprehensive analysis and valuation and it is determined that the appraisal institution can independently assess with the professional competence to undertake such appraisal and the business risk is within the controllable scope, we have conducted negotiation with the client and entered into the entrustment contract in relation to asset appraisal.

II. PREPARATION OF APPRAISAL PLANS

Based on the needs of this assessment, the person in charge of the project shall be identified and the asset valuer and appraisal support personnel shall be arranged to form the appraisal project team. The assessment plan shall be prepared by the person in charge of the project and implemented after being reviewed by the responsible person of the appraisal institution.

The assessment plan covers the whole process of implementation of assessment, such as on-site investigation, collection of evaluation information, valuation and estimation, preparation and submission of evaluation reports, preliminary determination of the basic method used for assessing the estimates, and corresponding scheduling of the various stages of the evaluation.

III. CONDUCT OF ON-SITE INVESTIGATION

- (I) Arranging and providing guidance for the relevant personnel to complete the asset valuation declaration schedule of the appraised entity. At the same time, guiding the appraised entity to conduct asset inventory.
- (II) Submitting the due diligence list to the appraised entity and collecting documents required for valuation, including property rights certificates of fixed assets and intangible assets, equipment purchase contracts or invoices and financial statements, production and operation statistics, audit reports in recent years, development plans, etc.
- (III) Conducting asset verification and on-site investigation in accordance with the requirements of the valuation criteria:
 - 1. Checking whether there are any errors, omissions or duplicates in the asset and liability appraisal schedules completed by the appraised entity, comparing the asset and liability appraisal schedules with the financial general ledger category by category; Spot checking the key items of the assets or liabilities, checking the data recorded in the financial statements, and ensuring the accounts and statements are consistent;
 - 2. The quantity of all kinds of physical assets listed in the appraisal schedules of assets shall be verified on the spot by means of a key inspection and general spot check, and shall be checked with the book records; At the same time, we conduct on-site inspections of buildings, key structures and key equipment to form detailed survey records, conduct conversations with asset management personnel and operational personnel, and inspect buildings maintenance records, equipment operation logs and records of large and medium-sized repairs; for construction in progress, we check the on-site progress, the construction quality, and the actual payment of construction cost; for inventory, we check the storage of raw materials, understand the receiving (in use) system, and check the completion progress and understand the accounting process, and understand the sales of finished products and the composition of sales cost;
 - 3. Comparing with the land information, and checking the topography and geomorphology on the spot, and understanding the surrounding area, environment, transportation and land development and utilization, practical use, etc.; for other intangible assets, understanding the formation or acquisition process, its role in the production process, and its contribution to the revenue of the enterprise;

4. Verifying and confirming the receivables in substantial and key amount, to understand the business transactions and the credit status of the counterparties, to peruse the relevant agreements and contracts of major liabilities, to understand the occurrence, the process of formation, and the situation of debt repayment;
 5. Looking into and identifying the property right certification documents and materials provided by the appraised entity, ascertaining the property right status of the fixed assets and intangible assets, and investigating the major matters that may affect the asset evaluation.
- (IV) Compiling an interview record after listening to the introduction by the relevant personnel on the appraised entity on the enterprise, key assets, history and current situation of the major products by the means of conferences and interviews, and having an understanding of the production, operation and management of the enterprise.
- (V) Making a historical comparison, capacity measurement, horizontal comparison and trend analysis of the forecast data such as future main income, cost and profit in the “Future Operation and Income Forecast Statement” of the description of relevant items in relation to assets appraisal by the client and the appraised entity, in order to judge the possibility or realizability of its future realization, and the degree of availability in the valuation adopting income approach.
- (VI) Conducting research activities outside the appraised entity, including visiting the market or enquiring market information to understand the sales situation, price trend, market share and the corresponding situation of other enterprise products in the same industry, as well as the market competition situation; understanding the relevant industrial policies, financial policies, market analysis of industry authorities or industry organizations, industry development opinions and industry statistics through the websites, professional publications and other media; visiting relevant management department and market to grasp information and materials of prices, conduct market research in the form of telephone inquiries and on-site consultation, and obtain price information other than price manuals and media information.

IV. COLLECTION AND ORGANISATION OF VALUATION INFORMATION

The appraisal professionals conducted appraisal information collection based on the specific circumstances of the appraisal project, including information obtained directly and independently from the market and other channels, information obtained from relevant parties such as the client and the appraised entity, as well as information obtained from government departments, various professional institutions and other relevant departments, categorize such information according to the needs of the appraisal work, i.e. by categories such as current assets, fixed assets, construction in progress, intangible assets, deferred income tax assets, other non-current assets, liabilities and the valuation adopting income approach, and conducted necessary analysis, summarization and organization of the collected appraisal information to form the basis for the valuation and estimation.

V. VALUATION AND ESTIMATION

The information obtained and compiled through various types of appraisal data would be refined, and obtained the various data and parameters that were needed for valuation through analysis and measurement, which could not be obtained directly in the process of valuation. These valuation approaches were then used to assess the estimates.

VI. FORMATION OF VALUATION CONCLUSIONS

The preliminary valuation results of various assets and liabilities in the cost approach (asset-based approach) were reviewed, and the valuation process and results of individual asset projects were modified appropriately if necessary. In the case of confirming that the valuation results of individual assets and liabilities were basically compliant and reasonable and there was no reassessment or omission of assessment of the assets and liabilities, the valuation results under cost approach (asset-based approach) were obtained. At the same time, we reviewed the whole process of the assessment under income approach, the formation of various data, the selection of various parameters, and made appropriate adjustments to the individual data and parameters if necessary, so as to further improve the assessment and ensure the relative reasonableness of the valuation results. Then, the valuation results under the two approaches were fully analyzed and compared, and on the basis of comprehensively considering the reasonableness of different valuation approaches and their valuation results, as well as the quality and quantity of the data used, the approach for concluding the valuation result was determined.

VII. PREPARATION AND ISSUANCE OF VALUATION REPORTS

The Asset Valuation Report was drafted based on the valuation work and the preliminary report was formed after three-level review within the evaluation institution. It shall seek opinions from the client on the preliminary report, and shall make necessary communication with the client on relevant matters involved. Without prejudice to the independent judgment by the evaluation institution on the final valuation conclusion, the client's reasonable opinion or recommendation on the valuation report shall be adopted. Then, after the asset evaluation institution and its asset valuation professionals have completed the above asset valuation procedures, the asset evaluation institution will issue and submit an asset valuation report.

CHAPTER V VALUATION ASSUMPTIONS

The basic objective of asset valuation is to have a fair valuation conclusion and all fair valuation conclusions are bound by conditions. An important form of such binding conditions for asset valuation is the asset valuation assumptions.

I. THE ASSUMPTIONS USED IN THIS VALUATION**(I) Basic Assumptions****1. Transaction assumption**

Transaction assumption refers to the assumption that all assets to be valued are in the process of transaction, and the valuer will conduct the valuation with reference to a simulated market based on the transaction conditions of assets to be valued. The transaction assumption is a fundamental prerequisite for the further implementation of the asset valuation.

2. Open market assumption

Open market assumption refers to the assumption that with respect to the asset traded or to be traded in the market, the transaction parties are equal and both have opportunity and time to access enough market information so as to make a rational judgment on the function, intended purpose and transaction price of the assets. The open market assumption is made on the basis that the assets are available for trading openly in the market.

3. *Assumption on a going concern basis*

Assumption on a going concern basis refers to the assumption that the appraised enterprise continues to operate in accordance with its original business purpose and operating methods after the valuation benchmark date.

(II) General Assumptions

1. It is assumed that there are no material changes in the relevant existing laws, regulations and policies, and macroeconomic conditions of the PRC as well as in the local political, economic and social environment of such places where the appraised entity is located after the valuation benchmark date;
2. It is assumed that the person operating the appraised entity under valuation is responsible, and the management is capable of performing their duties after the valuation benchmark date;
3. It is assumed that the appraised entity has fully complied with all relevant laws and regulations;
4. It is assumed that the interest rate, exchange rate, tax base, tax rate, policy-based charges and others related to the appraised entity will not change significantly after the valuation benchmark date;
5. It is assumed that there are no other force majeure and unforeseen factors that have a significant adverse impact on the enterprise after the valuation benchmark date.

(III) Specific Assumptions

1. It is assumed that the accounting policies to be adopted by the appraised entity after the valuation benchmark date are basically consistent with the accounting policies adopted when the valuation report is prepared in respect of significant aspects;
2. It is assumed that the business scope and method of the appraised entity will remain consistent with the current directions after the valuation benchmark date with its existing management method and management level;
3. The appraised entity does not change its operation mode, its future operation mode is basically stable, and its prediction of future earnings can be realized;

4. It is assumed that the cash inflow and cash outflow of the appraised entity after the valuation benchmark date are even;
5. This valuation assumes that the basic information and financial information provided by the client and the appraised enterprise are true, accurate, and complete.
6. The appraised entity will still be identified as a high-tech enterprise and enjoy the relevant preferential tax upon the due of the term of the qualification certification of high-tech enterprise in the coming year.

II. THE IMPACT OF THE ASSUMPTIONS OF THE VALUATION ON THE CONCLUSION OF THE VALUATION

The valuation conclusion of this Valuation Report is established at the valuation benchmark date based upon the above assumptions, and in the event of a significant change occurs in the above assumptions, the undersigning Asset Valuer and this valuation institution shall not be liable for deriving a different valuation conclusion because of the change in the assumptions.

CHAPTER VI CONCLUSION OF THE VALUATION

I. VALUATION RESULTS OF TWO APPROACHES

(I) Cost Approach (Asset-Based Approach) Valuation Results

The book value of total assets of Puyang China National Building Materials Photovoltaic Materials Company Limited* (中建材(濮陽)光電材料有限公司) as at the valuation benchmark date on 31 December 2021 was RMB777,426,600, the appraised value was RMB823,316,700, the appreciation value was RMB45,890,100, and the appreciation rate was 5.90%; the book value of total liabilities was RMB496,431,700, the appraised value was RMB496,431,700 (no appreciation or depreciation in value was recorded); the book value of net assets was RMB280,994,900, the appraised value of net assets was RMB326,885,000, the appreciation value was RMB45,890,100, and the appreciation rate was 16.33%.

Details of the summary of valuation result under cost approach (asset-based approach) are set out in the following table:

Item	Book Value A	Appraisal Value B	Appreciation/ Depreciation C=B-A	Appreciation Rate % D=C/A × 100%
Current assets	17,638.34	19,350.23	1,711.89	9.71
Non-current assets	60,104.32	62,981.44	2,877.12	4.79
Including: Fixed assets	48,063.48	48,327.42	263.95	0.55
Construction in progress	246.13	246.13		
Intangible assets	11,737.25	14,360.82	2,623.57	22.35
Deferred income tax assets	44.16	33.77	-10.40	-23.54
Other non-current assets	13.30	13.30		
Total assets	77,742.66	82,331.67	4,589.01	5.90
Current liabilities	15,807.70	15,807.70		
Non-current liabilities	33,835.47	33,835.47		
Total liabilities	49,643.17	49,643.17		
Net assets (Owners' equity)	28,099.49	32,688.50	4,589.01	16.33

The details of the valuation results under the cost approach (asset-based approach) are set out in the detailed assessment statement of assets and liabilities.

(II) Valuation result using the income approach

The book value of total assets, total liabilities and net assets of Puyang China National Building Materials Photovoltaic Materials Company Limited* as of the valuation benchmark date were RMB777,426,600, RMB496,431,700, and RMB280,994,900.

The total equity value of the shareholders as assessed by the income approach was RMB328,187,800, the appreciation value was RMB47,192,900, and the appreciation rate was 16.79%.

The detailed process of the income approach valuation is set out in the calculation table under the income approach.

II. ANALYSIS AND SELECTION OF ASSESSMENT RESULTS

The difference of valuation results between the income approach and the cost approach is RMB1.3028 million, with a difference of 0.40%. The overall income of Puyang China National Building Materials Photovoltaic Materials Company Limited basically matches the scale of its assets, so the value of the relevant assets formed by the investment can basically be reflected. The income approach assessment did not take into account the influence of factors, such as the scale of enterprise development and possible changes in the market, and the income forecast could not rule out the possibility of major turnaround and improved profitability. According to the analysis on the assessment process and assessment results of the income approach, the prediction of the income and profit of the enterprise made under the income approach valuation is limited by the relevant information obtained and understood, and it is yet to be certain that this possibility has been fully considered.

The Company's major long-term assets are buildings (structures), equipment and intangible assets. We fully consider various factors affecting the value of relevant assets when valuing relevant assets, and replace historical costs with market values. The valuation results under cost approach (asset based approach) are arrived at through summing up of estimation of the value of each of the assets which make up the enterprise from the perspective of the cost of the assets. After conducting comparative analysis on the above two methods, we believe that the evaluation results under the cost approach (asset-based approach) can more reasonably reflect the value of the entire equity of the Company's shareholders. Therefore, the valuation results under the cost approach (asset-based approach) is used as the final valuation conclusion.

III. CONCLUSION OF THE VALUATION

After implementing the above valuation procedures and methods, our conclusions are: In the aforementioned valuation purpose, under assumptions such as operating on a going concern basis, the valuation results of all shareholders' rights and interests of Puyang China National Building Materials Photovoltaic Materials Company Limited as at the valuation benchmark date 31 December 2021 are as follows:

Assets: The book value is RMB777,426,600, the appraised value is RMB823,316,700, the appreciation value is RMB45,890,100, and the appreciation rate is 5.90%;

Liabilities: The book value is RMB496,431,700, the appraised value is RMB496,431,700, and there is no increase or decrease in the value;

Net Assets (all equity interests of shareholders): The book value is RMB280,994,900, the appraised value is RMB326,885,000, and the appreciation value is RMB45,890,100, and the appreciation rate is 16.33%.

CHAPTER VII NOTES ON SPECIAL MATTERS**I. SITUATION ON INCOMPLETE OR DEFECTIVE OWNERSHIP AND OTHER MAJOR INFORMATION**

None of the properties and building declared in the valuation have been certified for property rights. In this valuation, the construction area of the houses that have yet to obtain the real estate certificate is mainly determined based on the property rights certificate and completion materials provided by the appraised unit, combined with the on-site investigation of asset appraisal professionals. However, the evaluation agency is not a statutory measurement agency. If there are differences between the above results and the measurement results of the authoritative agency in the future, the evaluation conclusion needs to be adjusted in accordance with its measurement results. The client and the appraised unit undertake that the ownership of these buildings belongs to the appraised unit, and the ownership is clear and indisputable. If there is a legal dispute over the property ownership of the appraised buildings, the client and the appraised unit shall bear all legal responsibilities. The valuation does not consider the impact of property defects on the valuation conclusion.

II. OTHER KEY INFORMATION NOT PROVIDED BY THE CLIENT

In the valuation, no other key information provided by the client was found.

III. UNCERTAIN FACTORS SUCH AS UNRESOLVED MATTERS AND LEGAL DISPUTES AS AT THE VALUATION BENCHMARK DATE

In this valuation, no uncertain factors such as unresolved matters and legal disputes existing as at the valuation benchmark date were found.

IV. SIGNIFICANT USE OF EXPERT WORK AND RELATED REPORTS

The carrying amounts of assets and liabilities included in the valuation report is the inventory value after the audit conducted by WUYIGE Certified Public Accountants LLP. This valuation report refers to the Audit Report of Puyang China National Building Materials Photovoltaic Materials Company Limited (Shen Zi [2022] No. 2-00512) (《中建材(濮陽)光電材料有限公司審計報告》(審字[2022]第2-00512 號)) issued by WUYIGE Certified Public Accountants LLP on 30 April 2022. The report is a standard unqualified audit report, and the reference of this audit report has been approved by the client, and the asset appraiser has made a professional analysis and judgment on the timeliness and reliability of the cited report, and the appraisal agency only bears the responsibility for the reference.

V. SIGNIFICANT SUBSEQUENT EVENTS

During the period from the valuation benchmark date to the date of issuance of this Asset Valuation Report, we have not found any matters that have significant impact on the valuation conclusion of the appraised unit, and the client and the appraised unit have not clearly reported the existence of significant subsequent events through effective means.

VI. DESCRIPTION OF RESTRICTIONS ON EVALUATION PROCEDURES

This valuation report does not contain any restrictions on valuation procedures.

VII. OTHER MATTERS REQUIRING EXPLANATION

- (I) In the event that there are any changes in the quantity and the pricing standard of assets after the valuation benchmark date, which affect the valuation conclusion, the valuation conclusion cannot be directly used, and the valuation conclusion shall be adjusted or re-valuated. The valuer does not assume any responsibility for the changes in assets, liabilities and market conditions, nor is it obliged to revise the valuer's valuation report for events or circumstances that occur after the valuation benchmark date.
- (II) In this valuation, there are no mortgages, guarantees, leases, finance leases and contingent liabilities (contingent assets) involved in the assets entrusted to be appraised.
- (III) In the valuation of assets within the scope of valuation, we have not taken into account any tax considerations for the appraised appreciation value of certain assets; we have not taken into account the effect of any possible mortgages, guarantees, litigations, and any additional payment by way of possible special transaction on valuation conclusion.
- (IV) According to the "Notice on the Comprehensive Rollout of the Business Tax to Value Added Tax Transformation Pilot Program" (Caishui [2016] No. 36) (《關於全面推開營業稅改徵增值稅試點的通知》(財稅[2016]36號)), since 1 May 2016, the pilot program of the transformation from business tax to value-added tax (the "**VAT Program**") has been comprehensively promoted nationwide, and the VAT can be deducted when the appraised entity engages in the acquisition and construction of assets, therefore, the appraisal value of this equipment does not include VAT.

- (V) According to the Supplemental Agreement II between the People's Government of Puyang County and Luoyang Glass Company Limited provided by the appraised unit, there are restrictions on the use of Land I (commercial and financial land) and Land IV (residential land). The abovementioned lands are the lands for the project of the photoelectric material R&D center and supporting talent home. The agreement requires that the R&D center will be used for R&D and office use after development; The talent home shall be used entirely for the office and residence of senior management personnel, senior technicians and other qualified internal staff, and transactions to third parties other than CNBM employees are prohibited. Due to the restrictions on the use of the above-mentioned lands, the appraised value is determined based on the cost of land acquisition considering the cost of funds during the holding period.
- (VI) The future profit forecast involved in this valuation is based on the management of Puyang China National Building Materials Photovoltaic Materials Company Limited and confirmed by Puyang China National Building Materials Photovoltaic Materials Company Limited and the client. Puyang China National Building Materials Photovoltaic Materials Company Limited is responsible for the authenticity, scientificity and completeness of the relevant data and materials provided for future profit forecasts, as well as the rationality and realizability of future profit forecasts. Asset valuation professionals have conducted necessary investigation and analysis on the rationality and reliability of their forecasts based on the Company's history, current situation, market prospects and competition conditions. On such basis, the forecast is recognized and adopted. However, due to possible changes in the market in the future and possible changes in the Company's own conditions, the realization of expected benefits is still uncertain. Due to the limitation of factors such as different professionalism, the valuers cannot make appropriate judgments on such uncertainties currently. Therefore, the forecast on the enterprise recognized after going through the necessary valuation procedures cannot be regarded as a guarantee that the forecast made by the enterprise can be realized.
- (VII) The valuation assumption used in this income approach valuation is a reasonable forecast for the future operation of the appraised object under the current conditions. If there are various unpredictable and unavoidable factors in the future that may affect the realization of the assumption premise, the degree of realization of the profit forecast will be affected. Asset valuation professionals hereby remind clients and other relevant parties that we do not guarantee that the above assumptions can be realized, and do not undertake the obligations to realize or help realize the above assumptions.

- (VIII) The valuation-related behavior document, business licenses, property rights certification document, financial statements, accounting certificates and other materials required for valuation provided by Puyang China National Building Materials Photovoltaic Materials Company Limited are the basis for the preparation of this report. The client and relevant parties shall be responsible for the authenticity, legality and completeness of the information provided.
- (IX) Several patents declared by Puyang China National Building Materials Photovoltaic Materials Company Limited are jointly owned. According to the agreement between the two parties: the two parties enjoy common rights and undertake common obligations to the joint intellectual property rights. Both parties can use the intellectual property rights by themselves without the consent of the other party, but the consent from the other party shall be obtained if one party carries out acts such as transfer of shares, transfer of rights, use of intellectual property for guaranteeing and licensing. The profits created by the use of the shared intellectual property rights in the production and operation of each of the parties belong to itself.
- (X) For any defects in the enterprise that may affect the appraised value of assets, if the client or the appraised unit does not make special explanations on that when making the engagement and the appraiser is still not aware of that after the appraiser has performed the appraisal procedures, the valuation institution and the appraiser shall not assume the relevant responsibilities.
- (XI) This asset appraisal conclusion is issued by Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd.. Due to the influence by the practice level and ability of the Company's appraisers, the asset appraisal conclusion is not the sole basis for relevant transactions and other economic behaviors, nor should it be regarded as a guarantee of the realizable price of the appraised object. It only serves as a value reference for the parties concerned.

Users of the asset valuation report shall note the impact of the above special notes on the valuation conclusion.

**CHAPTER VIII STATEMENT OF LIMITATION ON THE USE
OF THE ASSET VALUATION REPORT**

- I. This Asset Valuation Report shall only be used for the purposes of valuation as stated herein, and shall be used by the client, and the users of the Asset Valuation Report as required by laws and administrative regulations.
- II. This asset valuation conclusion is valid for one year from 31 December 2021 to 30 December 2022. However, if there is material change in the conditions of the valuation target or there is material movement in the market during this period, the conclusion of this valuation will be invalid. We take no responsibility towards the client, and the users of the Asset Valuation Report required by laws and administrative regulations who use the report after its valid period. We also take no responsibility for any use of the report when the valuation target experiences material changes or the market experiences material movements within its valid period.
- III. If the client or other users of Asset Valuation Report fails to use the Asset Valuation Report in accordance with the scope of use prescribed by laws, administrative regulations and the Asset Valuation Report, the asset valuation institution and its valuers shall not be held liable.
- IV. With the exception of the client and the users of the Asset Valuation Report required by laws and administrative regulations, no other institution or individual shall become the user of the Asset Valuation Report.
- V. User of the Asset Valuation Report shall correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the valuation target and should not be considered as a guarantee for the realizable value of the valuation target.
- VI. Without the consent of our company, content of the Asset Valuation Report shall not be extracted, quoted or disclosed on public media, unless otherwise permitted by laws, administrative regulations or agreed among relevant parties.
- VII. The valuation conclusion shall not be used unless the Asset Valuation Report has been approved by SASAC (including the companies contributing funds).

CHAPTER IX DATE OF VALUATION REPORT AND OTHERS

- I. The date of this Asset Valuation Report is 20 September 2022. The date of Asset Valuation Report refers to the date on which the valuation conclusion is drawn.
- II. The Asset Valuation Report contains a number of appendices (see list of appendices), which are an important part of the Asset Valuation Report.

Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd.

20 September 2022

Appendices of the Asset Valuation Report:

- I. Approval documents of relevant economic behavior;
- II. Audit report of the appraised unit;
- III. Operation license of enterprise legal person of the client and appraised unit;
- IV. Supporting information for the ownership of major assets in which the appraised object is involved;
- V. Letter of undertaking of the client and relevant parties;
- VI. Letter of undertaking of signing asset valuer;
- VII. Filing announcement of asset valuation institution;
- VIII. Operation license of legal person of asset valuation institution;
- IX. Qualification registration card of signing asset valuer;
- X. Explanation of significant difference between the book value of assets and valuation results;
- XI. Asset valuation entrustment contract.

The following is the text of a report received from Grant Thornton LLP (Special General Partnership) for the purpose of incorporation in this circular.

**ASSURANCE REPORT FROM THE REPORTING ACCOUNTANT OF THE COMPANY ON THE
CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION
WITH THE ASSET VALUATION OF NORTH GLASS**

To the Board of Directors of Luoyang Glass Company Limited:

We have been engaged to report on the arithmetical calculations of the discounted future cash flows used in the asset valuation report dated 23 September 2022 on the fair value of the entire equity interest of Qinhuangdao North Glass Co., Ltd. (“**North Glass**”) as at 31 December 2021 (the “**Valuation**”) prepared by Zhongjing Min Xin (Beijing) Asset Appraisal Co., Ltd.. The Valuation which is based on the discounted future 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**”).

Directors’ Responsibility for the Discounted Future Cash Flows

The directors of the Company are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the directors and as set out in the Valuation. This responsibility includes the design, implementation and maintenance of the internal controls related to the discounted future cash flows prepared for the Valuation and applying an appropriate basis of preparation and making estimates that are reasonable in the circumstances.

Independence and Quality Control

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 based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional conduct. The firm maintains a comprehensive quality control system, including documented policies and procedures for compliance with ethical requirements, professional standards and applicable laws and regulatory requirements, using Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagement” issued by the HKICPA.

The Accountant’s Responsibilities

Our responsibility is to report on the calculation of discounted future cash flows used in the Valuations, as required by Rule 14.62(2) of the Listing Rules. The discounted future cash flows do not involve the adoption of any accounting policies.

Basis of Opinion

We have carried out our work 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 us to plan and implement procedures to obtain reasonable assurance as to whether the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuations. We performed procedures for the compilation and arithmetic calculation of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Since our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Therefore, we do not express an audit opinion.

Opinions

We consider that discounted future cash flows, so far as the arithmetical calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuations.

Other Matters

Without qualifying our opinion, we would like to draw your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based, nor does our work constitute any valuation or audit or review opinion of the valuations of Qinhuangdao North Glass Co., Ltd.. The discounted future cash flows depend on future events and a number of assumptions that cannot be confirmed and verified in the same way as past results, and not all assumptions may remain valid throughout the period. In addition, because discounted future cash flows depend on future events, the actual results are likely to differ from the discounted future cash flows because future events and circumstances may not develop as expected, and the difference may be significant. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Grant Thornton LLP (Special General Partnership)*Certified Public Accountants*

7 December 2022

The following is the text of a report issued by the reporting accountant to Grant Thornton LLP (Special General Partnership) for the purpose of incorporation in this circular.

**INDEPENDENT ASSURANCE REPORT FROM INDEPENDENT REPORTING ACCOUNTANT
ON THE CALCULATION OF THE DISCOUNTED FUTURE CASH FLOW OF THE BUSINESS
EVALUATION VALUE OF PUYANG CHINA NATIONAL BUILDING MATERIALS
PHOTOVOLTAIC MATERIALS COMPANY LIMITED**

To the Board of Directors of Luoyang Glass Company Limited (“Luoyang Glass”):

We have been engaged to report on the arithmetic calculation of discounted future cash flows used in the asset valuation report dated 20 September 2022 on the fair value of the entire equity interest in Puyang China National Building Materials Photovoltaic Materials Company Limited as at 31 December 2021 (the “**Valuation**”) prepared by Zhongjing Min Xin (Beijing) Asset Appraisal Co., Ltd.. Pursuant to Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Valuation is regarded as a profit forecast as it is prepared based on discounted future cash flows.

Responsibilities of Directors

The Directors of Luoyang Glass (the “**Directors**”) are responsible for the preparation of discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuations. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuations and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Independence and Quality Control

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 based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional conduct. The firm maintains a comprehensive quality control system, including documented policies and procedures for compliance with ethical requirements, professional standards and applicable laws and regulatory requirements, using Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagement” issued by the HKICPA.

The Accountant’s Responsibilities

Our responsibility is to report on the calculation of discounted future cash flows used in the Valuations, as required by Rule 14.62(2) of the Listing Rules. The discounted future cash flows do not involve the adoption of any accounting policies.

Basis of Opinion

We have carried out our work 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 us to plan and implement procedures to obtain reasonable assurance as to whether the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuations. We performed procedures for the compilation and arithmetic calculation of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Since our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Therefore, we do not express an audit opinion.

Opinions

We consider that discounted future cash flows, so far as the arithmetical calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuations.

Other Matters

Without qualifying our opinion, we would like to draw your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based, nor does our work constitute any valuation or audit or review opinion of the valuations of Puyang China National Building Materials Photovoltaic Materials Company Limited. The discounted future cash flows depend on future events and a number of assumptions that cannot be confirmed and verified in the same way as past results, and not all assumptions may remain valid throughout the period. In addition, because discounted future cash flows depend on future events, the actual results are likely to differ from the discounted future cash flows because future events and circumstances may not develop as expected, and the difference may be significant. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Grant Thornton LLP (Special General Partnership)

Certified Public Accountants

7 December 2022



洛阳玻璃股份有限公司

LUOYANG GLASS COMPANY LIMITED*

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

(Stock code: 01108)

Executive Directors:

Mr. Xie Jun

Mr. Ma Yan

Mr. Zhang Rong

Mr. Liu Yuquan

Ms. Wang Leilei

Registered and principal office:

No. 9 Tang Gong Zhong Lu

Xigong District

Luoyang Municipal

Henan Province

The PRC

Non-executive Directors:

Mr. Zhang Chong

Independent non-executive Directors:

Ms. Zhang Yajuan

Mr. Fan Baoqun

Mr. Chen Qisuo

Mr. Zhao Hulin

13 December 2022

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION–ACQUISITION OF
40% EQUITY INTEREST IN QINHUANGDAO NORTH GLASS CO., LTD.
(2) DISPOSAL OF ALL EQUITY INTEREST OF PUYANG CHINA NATIONAL
BUILDING MATERIALS PHOTOVOLTAIC MATERIALS COMPANY
LIMITED, A WHOLLY-OWNED SUBSIDIARY**

We refer to (1) the asset valuation report (the “**Asset Valuation Report on North Glass**”) dated 23 September 2022 prepared by Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd.* (中京民信(北京) 資產評估有限公司) (the “**Asset Valuer**”) in relation to the valuation (“**Valuation on North Glass**”) of the entire equity interest attributable to Qinhuangdao North Glass Co., Ltd.* (“**North Glass**”) with the valuation reference date of 31 December 2021 and (2) the asset valuation report (the “**Asset Valuation**”

Report on Puyang CNBM Photovoltaic Materials”) dated 20 September 2022 in relation to the valuation (**“Valuation on Puyang CNBM Photovoltaic Materials”**) of the entire equity interest attributable to Puyang China National Building Materials Photovoltaic Materials Company Limited* (**“Puyang CNBM Photovoltaic Materials”**) with the valuation reference date of 31 December 2021.

We have reviewed the relevant Asset Valuation Reports. One of the valuation approaches of North Glass and Puyang CNBM Photovoltaic Materials (collectively referred to as the **“Valuation”**) adopted the income approach, which included the discounted future cash flow of North Glass and Puyang CNBM Photovoltaic Materials, thus 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.

We have discussed with the Asset Valuer about different aspects including the bases and assumptions, and reviewed the Valuation for which the Asset Valuer is responsible. We have also considered that the report from Grant Thornton LLP (Special General Partnership) regarding whether the profit forecasts, so far as the calculations are concerned, have properly complied with the bases and assumptions set out in the Asset Valuation Report. We have noted that the calculations of the profit forecasts in the Valuation are mathematically accurate, and have fulfilled the bases and assumptions set out in the Asset Valuation Report on North Glass and Asset Valuation Report on Puyang CNBM Photovoltaic Materials.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the Board of the Company confirmed that Valuation prepared by the Asset Valuer has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of the Board

Luoyang Glass Company Limited*

Xie Jun

Chairman

Details of the proposed amendments to the Articles of Association are set out below:

Original Article 1: Luoyang Glass Company Limited (hereinafter referred to as the “**Company**”) is legally incorporated in accordance with the national laws, administrative regulations and Opinions on Standards for the Companies Limited by Shares formulated by the State Commission for Restructuring the Economy before the Company Law of the People’s Republic of China (“PRC”) (hereinafter referred to as “Company Law”) took effect. After the Company Law came into force, the Company is still duly existing and specified according to the Company Law and Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (hereinafter referred to as “Special Regulations”); therefore, the Company is in conformity with the company conditions stipulated in the Company Law.

The Company is incorporated by means of promotion with the approval of State Commission for Economic System Reform (國家經濟體制改革委員會) Ti Gai Sheng (1994) Circular No. 56 and registered at the Luoyang City Administration for Industry and Commerce and duly acquired the business license on 6 April 1994.

With the approval of State Commission for Economic System Reform Ti Gai Sheng (1994) Circular No. 64, the Company was reformed into a company with public-offered shares to the general public on 19 April 1995 and registered in Luoyang Administration for Industry and Commerce. The business license number of the Company after change is 17111122.

On 28 February 1996, the Company was granted the “Certificate of Approval for Establishment of Foreign Invested Enterprise of the People’s Republic of China” by Ministry of Foreign Economic Relation and Trade of People’s Republic of China and changed and registered as “enterprise limited by shares with Hong Kong Investment” on 7 August 1996. The registration number of the business license is: Qi Gu Luo Zhong Fu Zi. No. 000327.

The Company was changed and registered as “joint stock company with limited liability (listed joint venture in Taiwan, Hong Kong, Macau and the PRC)” on 22 January 2016, and its unified social credit code was 914103006148088992.

The promoter of the Company is China Luoyang Float Glass Group Company (changed its name into China Luoyang Float Glass Group Company Limited on 25 December 1996)

Revised Article 1:

Triumph New Energy Company Limited (hereinafter referred to as the “Company”) is a joint stock company with limited liability established in accordance with the Company Law of the People’s Republic of China (“PRC”) (hereinafter referred to as the “Company Law”) and other relevant provisions.

The Company is exclusively established by China Luoyang Float Glass Group Company (with its name changed to China Luoyang Float Glass Group Company Limited on 25 December 1996) with the approval of State Commission for Economic System Reform (國家經濟體制改革委員會) Ti Gai Sheng (1994) Circular No. 56. The Company registered at the Luoyang City Administration for Industry and Commerce and duly acquired the business license on 6 April 1994.

With the approval of State Commission for Economic System Reform Ti Gai Sheng (1994) Circular No. 64, the Company was reformed into a company with public-offered shares to the general public on 19 April 1995 and registered in Luoyang Administration for Industry and Commerce. The business license number of the Company after change is 17111122.

The Company was changed and registered as “enterprise limited by shares with Hong Kong Investment” on 7 August 1996. The registration number of the business license is: Qi Gu Luo Zhong Fu Zi No. 000327.

The Company was changed and registered as “joint stock company with limited liability (listed joint venture in Taiwan, Hong Kong, Macau and the PRC)” on 22 January 2016, and its unified social credit code was 914103006148088992.

Original Article 2

Registered Name of the Company is:

Chinese: 洛陽玻璃股份有限公司

English: LUOYANG GLASS COMPANY LIMITED

Revised Article 2

Registered Name of the Company is:

Chinese: 凱盛新能源股份有限公司

English: **Triumph New Energy Company Limited**

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS**(a) Interests of the Directors, supervisors and chief executives of the Company**

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had an interest or short position in any Shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, supervisors or chief executives of the Company was taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, entered in the register kept by the Company; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As at the Latest Practicable Date, none of the Directors were a director or employee of a company which had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates were considered to have interest in any business which competes or may compete with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

None of the Directors are materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group taken as a whole.

(b) Substantial Shareholders' and other Shareholders' interests

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executives of the Company, no other persons had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Name	Capacity	Number of Shares Held ¹	Number of underlying Shares held under equity derivatives ¹	Total number of Shares interested ¹	Percentage of the relevant issued class of share capita (%)	Percentage of the total issued share capital of the Company (%)	Type of Share
China National Building Material Group ²	Interest in controlled corporation	204,932,781(L)	/	204,932,781	51.79	31.74	A Share
Triumph Group ²	Beneficial owner/ interest in controlled corporation	19,583,123 (L)	/	19,583,123	4.95	3.03	A Share
CNBM Research Institute	Beneficial owner	70,290,049 (L)	/	70,290,049 (L)	17.76	10.89	A Share
CLFG	Beneficial owner	111,195,912 (L)	/	111,195,912 (L)	28.10	17.22	A Share

Note 1: (L) – Long position

Note 2: CNBMG is the controlling shareholder of CNBM, the latter of which is also the controlling shareholder of International Engineering. Triumph, a wholly-owned subsidiary of CNBMG, is the controlling shareholder of CNBM Research Institute, CLFG and Triumph Mineral.

Therefore, CNBMG is deemed to have the same interests in the Company as those owned by International Engineering, CNBM Research Institute, CLFG, Triumph Group and Triumph Mineral by virtue of the SFO; and Triumph is deemed to have the same interest in the Company as those owned by CNBM Research Institute, CLFG and Triumph Mineral by virtue of the SFO.

As at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executives of the Company, the following Directors are directors or employees of the substantial shareholders set out above:

Name of Directors	Name of substantial shareholder entities	Positions held
Xie Jun (executive Director of the Company)	CLFG	Chairman, Deputy Secretary of the Party Committee, Chief Engineer
Zhang Chong (Non-executive Director of the Company)	CNBM Research Institute	Deputy General Manager, Chief Engineer
Ma Yan (executive Director of the Company)	CLFG	General Manager
Liu Yuquan (executive Director of the Company)	CLFG	General Counsel

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executives of the Company, none of the Directors were a director or employee of a company which had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation).

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, to the best of the Directors' knowledge, there has been no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were prepared.

5. QUALIFICATION OF EXPERT

The following is the qualification of the expert whose advice and recommendations are contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Zhongjing Minxin (Beijing) Assets Appraisal Co., Ltd.	an independent professional valuer in the PRC
Grant Thornton LLP (Special General Partnership)	Certified Public Accountants

6. CONSENT OF EXPERT

Each of the above-mentioned experts has given and has not withdrawn its written consent to the issue/or advise of this circular (as the case may be) with the inclusion of its letter and reference to its name in the form and context in which they appear.

7. INTERESTS OF EXPERT

As at the Latest Practicable Date, each of the above-mentioned experts had no shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and had no direct or indirect interest in any assets which had been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. OTHER INFORMATION

- (a) The company secretary of the Company is Mr. Ip Pui Sum. Mr. Ip is a certified public accountant in Hong Kong, a fellow member of the Association of Chartered Certified Accountants, and a member of the Hong Kong Institute of Certified Public Accountants, Chartered Institute of Management Accountants, Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (b) The registered and principal office of the Company is situated at No. 9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC.
- (c) The branch share registrar and the transfer office of the Company for H Shares in Hong Kong is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

9. DOCUMENTS ON DISPLAY

The following documents will be available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (<http://www.zhglb.com/>) for a period of 14 days from the date of this circular:

- (a) the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement entered into between the Company and CNBM;
- (b) the Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement entered into between the Company and CNBM;
- (c) the Supplemental Agreement for Technical Services Framework Agreement entered into between the Company and CNBM;
- (d) the North Glass Share Transfer Agreement entered into between the Company and Yaohua Group;
- (e) the Puyang CNBM Photovoltaic Materials Share Transfer Agreement entered into between the Company and Yaohua Group;
- (f) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” of this circular;
- (g) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this circular;
- (h) Gram Capital’s letter to the Independent Board Committee and Independent Shareholders, the text of which is set out in the “Letter from Gram Capital” section of this circular;
- (i) the written consent mentioned in the section headed “Consent of Expert” in this appendix;
- (j) the Asset Valuation Report on North Glass, the text of which is set out in Appendix I to this circular;
- (k) the Asset Valuation Report on Puyang CNBM Photovoltaic Materials, the text of which is set out in Appendix II to this circular; and
- (l) this circular.

NOTICE OF EGM

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.



洛阳玻璃股份有限公司

LUOYANG GLASS COMPANY LIMITED*

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

(Stock code: 01108)

NOTICE OF THE THIRD EXTRAORDINARY GENERAL MEETING 2022

NOTICE IS HEREBY given that the third extraordinary general meeting 2022 (the “**EGM**”) of Luoyang Glass Company Limited* (the “**Company**”) will be held at the conference room of the Company on 3rd Floor, No. 9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the People's Republic of China (the “**PRC**”) at 9 am on 30 December 2022 (Friday) for the purpose of considering and, if thought fit, passing the following resolutions:

*Unless otherwise indicated, capitalised terms used herein shall have the same meanings as those defined in the announcements of the Company dated 23 November 2022 in relation to the revised annual caps and supplemental agreements of continuing connected transactions, acquisition of the remaining 40% equity interest of Qinhuangdao North Glass Co., Ltd., discloseable and connected transactions in relation to disposal of 100% equity interest in Puyang China National Building Materials Photovoltaic Materials Company Limited, a subsidiary, proposed change of company name and proposed amendments to the articles of association and the announcement of the Company dated 27 October 2022 in relation to the resignation and nomination of non-executive Director (the “**Announcements**”).*

Special Resolutions

1. To consider and approve the change of the company name;
2. Conditional upon the passing of the special resolution number 1, to consider and approve the proposed amendments to the Articles of Association of the Company.

Ordinary Resolutions

1. To consider and approve the Supplemental Agreement for Engineering Construction Equipment Procurement and Installation Framework Agreement (a copy of which has been proposed to the EGM marked “1” and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed annual caps, the transactions contemplated thereunder and the implementation thereof;

NOTICE OF EGM

2. To consider and approve the Supplemental Agreement for Sale and Purchase of Raw Materials Framework Agreement (a copy of which has been proposed to the EGM marked “2” and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed annual caps, the transactions contemplated thereunder and the implementation thereof;
3. To consider and approve the Supplemental Agreement for Technical Services Framework Agreement (a copy of which has been proposed to the EGM marked “3” and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed annual caps, the transactions contemplated thereunder and the implementation thereof;
4. To consider and approve the Share Transfer Agreement of Qinhuangdao North Glass Co., Ltd. (a copy of which has been proposed to the EGM marked “4” and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed annual caps, the transactions contemplated thereunder and the implementation thereof;
5. To consider and approve the Share Transfer Agreement of Puyang China National Building Materials Photovoltaic Materials Company Limited (a copy of which has been proposed to the EGM marked “5” and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed annual caps, the transactions contemplated thereunder and the implementation thereof; and
6. To consider and approve the appointment of Mr. Sun Shizhong as a non-executive Director of the tenth session of the Board of the Company.

(For details of the above resolutions, please refer to the Announcements.)

By order of the Board
Luoyang Glass Company Limited*
Xie Jun
Chairman

Luoyang, the PRC
13 December 2022

As at the date of this notice, the Board comprises five executive Directors: Mr. Xie Jun, Mr. Ma Yan, Mr. Zhang Rong, Mr. Liu Yuquan and Ms. Wang Leilei; one non-executive Director: Mr. Zhang Chong; and four independent non-executive Directors: Ms. Zhang Yajuan, Mr. Fan Baoqun, Mr. Chen Qisuo and Mr. Zhao Hulin.

* *For identification purposes only*

NOTICE OF EGM

Notes:

1. Holders of the Company's H Shares, whose names appear on the register of members maintained by Hong Kong Registrars Limited at the close of trading at 4:30 p.m. on 22 December 2022, are entitled to attend and vote at the EGM. The register of members of the Company's H Shares will be closed from 23 December 2022 to 30 December 2022 (both days inclusive), during which period no transfer of H Shares will be effected in order to determine the list of holders of H Shares eligible to attend the EGM. Holders of H Shares of the Company who wish to attend the EGM must lodge all share transfer forms accompanied by the relevant H share certificates with the registrar of the Company's H Shares, namely Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on 22 December 2022.
2. Any Shareholder entitled to attend and vote at the EGM may appoint a proxy or proxies (who need not be a Shareholder of the Company) to attend and vote at the EGM on his/her behalf. A proxy of a Shareholder who has appointed more than one proxy may only vote on a poll.
3. The principal Shareholder may appoint a proxy in written form (i.e. through the enclosed proxy form). The proxy form shall be signed by the principal or his attorney as authorised. In case that the proxy form is signed by the attorney of the principal, the power of attorney or other authorisation documents must be notarised by the notary public. The proxy form together with such power of attorney or other authorisation documents as notarised by the notary public must be lodged at the Company's share registrar in Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or to the Company at No. 9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof.
4. Shareholders who intend to attend the EGM in person or by proxy should complete and return the signed reply slip for attending the EGM to the registered address of the Company on or before 22 December 2022 by courier, mail or facsimile.
5. Shareholders or their proxies shall produce their proofs of identity when attending the EGM. A proxy of Shareholder who is appointed to attend the EGM shall produce the proxy form at the same time.
6. The EGM is expected to last for no more than one day. Shareholders and their proxies attending the EGM should be responsible for their own traveling and accommodation expenses.
7. The Company's registered address is as follows:

No. 9 Tang Gong Zhong Lu, Xigong District
Luoyang Municipal, Henan Province
the People's Republic of China
Postal Code: 471009
Tel: 86-379-6390 8961
Fax: 86-379-6325 1984
8. Completion and return of the proxy form will not preclude Shareholders of the Company from subsequently attending and voting in person at the EGM or any adjourned meetings should you so wish.