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山東晨鳴紙業集團股份有限公司
SHANDONG CHENMING PAPER HOLDINGS LIMITED*
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1812)

**FURTHER ANNOUNCEMENT
CONNECTED TRANSACTION IN RELATION TO
DISPOSAL OF EQUITY INTEREST IN YUJING HOTEL**

Reference is made to the announcement of Shandong Chenming Paper Holdings Limited (the “**Company**”) dated 22 March 2024 in relation to, among other things, the disposal of the 90.05% equity interest in Shandong Yujing Grand Hotel Co., Ltd.* (山東御景大酒店有限公司) (“**Yujing Hotel**”) and the debts of Yujing Hotel with a carrying amount of RMB193.5072 million in total (the “**Announcement**”). Unless the context requires otherwise, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

As disclosed in the Announcement, the consideration of the Disposal is determined on normal commercial terms after arm’s length negotiations between the Company and Guangyuan Real Property and with reference to the asset valuation result on the value of all shareholders’ equity of Yujing Hotel (the assessed value corresponding to the Target Equity Interest of 90.05% multiplied by the valuation amount of RMB180.7176 million), and the carrying amount of the Target Debts as the basis for pricing. In order to enable shareholders and potential investors to further understand the valuation of Yujing Hotel, details of the valuation method for the Yujing Hotel are summarised below:

RATIONALITY OF THE VALUATION APPROACH CHOSEN

According to the Practice Guidelines for Asset Valuation issued by the China Asset Appraisal Association, the three basic asset valuation approaches commonly adopted for enterprise value appraisal comprise the market approach, the income approach and the asset-based approach. For the purpose of valuation of a business enterprise, an asset valuer shall analyse the applicability of the three basic asset valuation approaches in terms of relevant conditions including valuation purpose, valuation subject, value type and data collection, and determine the valuation approach.

Reasons for not applying the market approach

Due to the limited access to transaction information on the property rights trading market in the PRC and the significant differences in the revenue structure and composition and size of principal businesses of similar enterprises, it is difficult to obtain sufficient comparable listed companies or comparable transaction cases. As such, it is difficult to adopt the market approach for valuation at this stage.

Reasons for not applying the income approach

Yujing Hotel has been operating in debt and sustaining losses in recent years. Future development planning and revenue size are subject to considerable uncertainty, and the amount of revenue and risks in future years cannot be reasonably predicted and quantified. As such, the income approach has not been adopted for this valuation.

Reasons for applying the asset-based approach

Enterprise value is a reflection of the comprehensive value formed by the participation of various tangible assets and intangible assets in business operations. The appraised entity has unambiguous ownership of assets and complete financial information, and thus all its assets and liabilities can be identified. Not only can the quantity of the subject assets can be ascertained through the financial information and the information on purchases and constructions, it can also be verified through on-site inspection. The value of the assets can be determined by considering the re-acquisition of similar assets. As such, the asset-based approach is applicable to the subject assets in this valuation.

ASSUMPTIONS OF THE VALUATION

This valuation was also subject to the following key assumptions:

- (1) Transaction assumption: It is assumed that all assets to be valued are in the process of transaction, and the valuer conducts the valuation based on the transaction conditions of the assets to be valued in a simulated market.
- (2) Open market assumption: An open market refers to fully developed and comprehensive market conditions. Open market assumption is to assume that the parties to an asset transacted or proposed to be transacted in the market are on equal footing and have opportunity and time to access adequate market information to make rational judgments as to the function, usage and transaction price of the asset.
- (3) Assumption about the use of an asset for an existing purpose: The assumption about the use of an asset for an existing purpose is an assumption about the conditions under which the asset is to enter the market and the status of using the asset under such market conditions. First, it is assumed that the asset within the scope of valuation is in use. Then it is assumed that the asset will continue to be used for the current purpose in the current way without considering a change in use of the asset or the optimal conditions to use the asset.

- (4) In situ use assumption: It refers to the assumption that the asset will remain in the original place or the original place of installation for continuous use.
- (5) Going concern assumption: It is assumed that the appraised entity will continue as a going concern, regardless the impact of the economic behaviors involved in the purpose of this valuation on the business operations of the enterprise.
- (6) External environment assumption: It is assumed that there will be no significant changes in the relevant laws, regulations and policies in force in the PRC; there will be no significant changes in the political, economic and social environment of the regions in which the parties to the transaction are located; and there will be no significant changes in the relevant interest rates, exchange rates, taxation bases and rates, policy levies, etc.
- (7) Data authenticity assumption: As for the information and materials provided by the client and relevant parties on the basis of the conclusion of the valuation, the asset valuer assumes that these are credible and has made necessary verification according to the valuation procedure, but the asset valuer does not make any guarantee for the authenticity, legality and integrity of these information and materials.
- (8) It is assumed that no material adverse impact caused by force majeure after the Valuation Benchmark Date.
- (9) It is assumed that the management of the appraised entity has responsibly performed its obligations for business operations, and has competently implemented effective management of the relevant assets. The appraised entity has not violated any national laws and regulations in its business operations.
- (10) The impact of possible mortgages, guarantees, as well as the possible additional price to be paid for special transaction methods on the conclusion of the valuation is not considered.
- (11) In the valuation of the 30 mu of land of Xinhua Bookstore originally purchased, as only the land transfer price has been paid for such portion of land but the land use right certificate has not yet been applied for, it is assumed that the nature of the land use right is transfer in this valuation; since no information on the land transfer price (the price charged by the relevant PRC government authorities for transferring the land use right) paid by the appraised entity was obtained, the land transfer price that may be payable when applying for a land certificate in the future was deducted in the valuation. The land is adjacent to the main building of the hotel, which are both used for the Yujing Hotel project. It is assumed based on actual use and standard floor area ratio in the valuation. (*Note 1*)

According to the 2020 Terminology of the Asset Valuation Standards* (《資產評估準則術語2020》), valuation assumptions refer to the reasonable inferences or assumptions about the prerequisites or possible future developments on which the assessment conclusion is based made by asset valuation professionals through logical reasoning on the basis of common and generally accepted knowledge, as well as the objective facts and the laws and trends of the development of things.

The valuation assumptions used in asset valuation involve different aspects, mainly including the assessment of prerequisite assumptions, assessment of external environment assumptions, and assessment of specific assumptions.

Prerequisite valuation assumptions include assumptions of transaction and market conditions, and assumptions of the existence or use status of the valuation subject in the valuation. Items (2) and (3) of the above assumptions of the valuation, namely the open market assumption and the assumption about the use of an asset for an existing purpose, are prerequisite valuation assumptions.

The open market assumption assumes that a relatively established open market exists, and the appraised assets will be traded in such an open market. In this environment, the exchange value of the assets is subject to market mechanisms and determined by market conditions rather than individual transaction cases.

The assumption about the use of an asset for an existing purpose refers to that an asset will continue to be used for the current purpose in the current way without changing the current purpose. This assumption is made to distinguish it from future changes in the purpose of assets, because changing the purpose will increase corresponding costs.

Accordingly, valuation is based on a specific market environment and status of use, and these prerequisite valuation assumptions cannot be quantified.

The Directors have reviewed the valuation report prepared by Tinho International. With respect to the assumptions adopted, the Directors are of the view that the assumptions used in the valuation of Yujing Hotel are common assumptions adopted in business valuations based on asset-based approach and are in line with market practice. The Directors have also taken various measures to ascertain the fairness, reasonableness and appropriateness of the valuation, including but not limited to (i) reviewing the financial statements of Yujing Hotel to understand the financial performance and position of Yujing Hotel; and (ii) discussing the business plans or strategies for Yujing Hotel together with its management.

Based on the foregoing, and taking into account that the valuation approach is a commonly adopted approach, and that the key assumptions used in the calculations of the appraised values are assumptions commonly adopted in other business valuation in the market, the Directors (including the independent non-executive Directors) consider that the valuation approach and the assumptions used in the valuation of Yujing Hotel are fair and reasonable.

Note 1 Pursuant to the Shou Ban Ji [2005] No. 49 and Shou Ban Ji [2006] No. 30 meeting minutes of the Shouguang Municipal Committee Office of the Communist Party of China* (中共壽光市委辦公室), and the Land Swap and Demolition Compensation Agreement between Shouguang Xinhua Bookstore and Shandong Chenming Group, as the construction of Yujing Hotel required to occupy 30 mu of land (the “**Land**”) of the former Xinhua Bookstore located south of Nanhuan Road and east of Mihe Bridge, the Company agreed to swap the Land with 30 mu of equivalent land in other location for Xinhua Bookstore.

In September 2006, pursuant to the Supplementary Agreement on the Land Swap and Demolition Issues between Shandong Xinhua Bookstore and Shandong Chenming Group, if the Land cannot be swapped successfully, the Company shall pay RMB8 million to Xinhua Bookstore as a compensation for occupying the Land, and Xinhua Bookstore shall be responsible for handling the relevant land transfer procedures and paying the taxes related to the transfer procedures. In August 2009, Yujing Hotel paid RMB8 million to the Shouguang Infrastructure Construction Fund Management Center* (壽光市基礎設施建設資金管理中心), and the center issued a receipt of settlement indicating the payment as a land transfer payment. Meanwhile, Yujing Hotel was included in the land use right item under the intangible assets.

CONCLUSION ON THE VALUATION

For Yujing Hotel, its total assets had a carrying value of RMB202.3663 million and an appraised value of RMB422.8527 million, representing an increase of RMB220.4864 million or an appreciation rate of 108.95%; its liabilities had a carrying value of RMB242.1429 million and an appraised value of RMB242.1351 million, representing a decrease of RMB7,800 or an impairment rate of 0.003%; its owners' equity (net assets) had a carrying value of RMB-39.7767 million and an appraised value of RMB180.7176 million, representing an increase of RMB220.4943 million or an appreciation rate of 554.33%. The asset valuation results are summarised as follows:

Unit: RMB0,000

Item	Carrying value A	Appraised value B	Increase/ decrease C=B-A	Appreciation rate % D=C/B×100%
Current assets	1,723.11	1,723.11	-	-
Non-current assets	18,513.52	40,562.16	22,048.64	119.09
Of which: Available-for-sale financial assets	-	-	-	-
Held-to-maturity investments	-	-	-	-
Long-term equity investments	-	-	-	-
Investment property	-	-	-	-
Fixed assets ¹	14,160.87	30,423.60	16,262.73	114.84
Intangible assets ²	1,252.65	7,038.56	5,785.91	461.89
Goodwill	-	-	-	-
Long-term prepaid expenses	-	-	-	-
Deferred income tax assets	-	-	-	-
Other non-current assets	3,100.00	3,100.00	-	-
Total assets	20,236.63	42,285.27	22,048.64	108.95
Current liabilities	22,295.29	22,294.51 ³	-0.78	-0.003
Non-current liabilities	1,919.00	1,919.00	-	-
Total liabilities	24,214.29	24,213.51	-0.78	-0.003
Total shareholders' equity (net assets)	-3,977.67	18,071.76	22,049.43	554.33

Notes:

1. The main reasons for the difference between the carrying value and the appraised value of the fixed assets are as follows:

(i) Fixed assets – housing and building structures

The appraised housing (building structures) were built in earlier times, and their construction costs increased year by year along with economic development, resulting in an increase in replacement costs, which resulted in an increase in the appraised value accordingly.

When calculating replacement costs, major parameters include construction costs, pre-construction service charges and investment gains. For construction costs, the appraisal personnel of Tinho International determined the development project volume of similar housing (building structures) in the market through on-site investigation and estimated its construction costs by applying quota standards and related pricing documents such as Notice on the Issuance of Consumption Quota for Construction Projects in Shandong Province and Consumption Quota for Installation Projects in Shandong Province (Lu Jian Biao Zi [2016] No. 39) 《關於發佈〈山東省建築工程消耗量定額〉、〈山東省安裝工程消耗量定額〉等的通知》(魯建標字[2016]39號)) and Notice on the Issuance of Rules for Composition and Calculation of Construction Project Costs in Shandong Province (Lu Jian Biao Zi [2016] No. 40) 《關於印發〈山東省建設工程費用項目組成及計算規則〉的通知》(魯建標字[2016]40號)); for pre-construction service charges, they were mainly determined with reference to documents of pricing standards such as Notice of the National Development and Reform Commission on Further Easing Regulation on the Prices of Professional Services for Construction Projects (Fa Gai Jia Ge [2015] No. 299) 《國家發展改革委關於進一步放開建設項目專業服務價格的通知》(發改價格[2015]299號)) and Construction Cost Management Requirements for Basic Construction Projects (Cai Jian [2016] No. 504) 《基本建設項目建設成本管理規定》財建[2016]504號)); for investment gains, the major assumption is that Yujing Hotel and other similar hotels are both commercial operational real estate, and investment gains are determined with reference to the investment gains of these similar hotels provided by listed companies in the real estate sector in Shanghai and Shenzhen for the period from 2020 to 2022.

As the value of housing and building structures is higher than the value of equipment, the appraised value of housing and building structures represents approximately 95.23% of the appraised value of fixed assets.

(ii) Fixed assets – equipment

For machinery and electronic equipment, with the advancement of science and technology, the manufacturing costs of relevant equipment would relatively decrease, and the selling prices of equipment would also decrease, resulting in a reduction in the replacement cost of equipment. However, during the valuation, there is a difference between the economic useful life of equipment and the depreciation life adopted by the enterprise, resulting in an increase in the appraised value.

When calculating replacement costs, by inquiring information on current market price of equipment through internet, phone call or making inquiry to equipment sellers, the appraisal personnel of Tinho International conducted market survey and collected prevailing price data, so as to determine equipment replacement costs. In addition, Tinho International determines a longer economic useful life of equipment based on the economic useful life of equipment under the requirement of the Manual for Common Data Used in Asset Appraisal (資產評估常用數據手冊) and the on-site inspection of equipment status, resulting in an increase in the appraised value.

As the value of equipment is lower than the value of housing and building structures, the appraised value of equipment only represents approximately 4.77% of the appraised value of fixed assets.

2. The main reasons for the difference between the carrying value and the appraised value of the intangible assets are as follows:

(i) Intangible assets – land use rights

Land is a scarce resource. With the development of the economy, the supply of land is inadequate, resulting in an increase in land prices and an increase in appraised value.

The appraisal personnel of Tinho International primarily selected comparable transactions through market survey, determined the relevant correction coefficients in accordance with Technical Manual for the Application of Benchmark Land Value of State-owned Land in Urban Areas and Established Townships of Shouguang City 《壽光市城區及建制鎮駐地國有土地基準地價應用技術手冊》, made adjustments for the differences in transaction time (correction coefficient applied ranges from 0.9929 to 1.0030), utilization period (correction coefficient applied is 0.8590) and plot ratio (correction coefficient applied ranges from 0.9828 to 1.3735) of comparable transactions and the land under appraisal, and determined the final value of the land use rights under appraisal. The selection criteria for comparable transactions are: (a) the use and appraisal of the transaction cases shall be the same; (b) the transaction case shall generally be conducted at arm's length, if not, it shall be able to be corrected to an arm's length transaction; and (c) the type of the transaction case shall be consistent with the valuation purpose.

As the value of land use rights is higher than the value of other intangible assets, the appraised value of land use rights represents approximately 99.14% of the appraised value of intangible assets.

(ii) Intangible assets – others

The market approach is adopted for the purchased software, and the enterprise conducted amortization, resulting in an increase in appraised value.

The appraisal personnel of Tinho International primarily made price inquiry to software providers through market survey, so as to determine the appraised value based on the market price (tax exclusive) as at the Valuation Benchmark Date.

As the value of other intangible assets is lower than the value of land use rights, the appraised value of other intangible assets represents approximately 0.86% of the appraised value of intangible assets.

3. The main reasons for the difference between the carrying value and the appraised value of the current liabilities are as follows: Tinho International primarily determines the appraised value based on the liability projects and amount to be borne by the company due to its actual needs. As the employee benefits under staff remuneration payables are corporate prepayments instead of liabilities to be borne by the company due to its actual needs, the current liabilities did not take into account employee benefits under staff remuneration payable, and resulting in appraised value depreciation.

THE USE OF PROCEEDS

As stated in the Announcement, the Company proposes to use the proceeds from the Disposal for the general working capital of the Group or payment of bank loans.

After careful consideration and detailed evaluation of the operations and business strategies of the Group, the Company proposes to use all proceeds as the general working capital of the Group to purchase raw materials. The first transfer payment of RMB178.25 million is expected to be fully utilised in the first half of 2024, and the second transfer payment of RMB178.25 million is expected to be fully utilised in the first half of 2025.

By order of the Board
Shandong Chenming Paper Holdings Limited
Chen Hongguo
Chairman

Shandong, the PRC
2 May 2024

As at the date of this announcement, the executive Directors are Mr. Chen Hongguo, Mr. Hu Changqing, Mr. Li Xingchun, Mr. Li Feng and Mr. Li Weixian; the non-executive Directors are Mr. Han Tingde and Mr. Li Chuanxuan; and the independent non-executive Directors are Ms. Yin Meiqun, Mr. Sun Jianfei, Mr. Yang Biao and Mr. Li Zihui.

* For identification purposes only