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中石化煉化工程（集團）股份有限公司
SINOPEC Engineering (Group) Co., Ltd.*

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

(Stock Code: 2386)

CONNECTED TRANSACTIONS
DISPOSAL OF EQUITY INTERESTS IN SINOPEC TECH AND ACQUISITION OF EQUITY INTERESTS IN KSD

THE TRANSACTIONS

The Board is hereby to announce that on 30 June 2024, SSEC, a wholly-owned subsidiary of the Company, entered into the KSD Equity Transfer Agreement with Sinopec Tech, pursuant to which, SSEC agrees to acquire the 14.65% equity interests held by Sinopec Tech in KSD and Sinopec Tech agrees to repurchase its 7% equity interests held by SSEC. On the same date, SEI, LPEC and SNEC, the wholly-owned subsidiaries of the Company, entered into the Sinopec Tech Equity Transfer Agreement with Sinopec Corporation, pursuant to which, SEI, LPEC and SNEC agree to sell the 28% equity interests in aggregate held in Sinopec Tech to Sinopec Corporation.

Prior to the completion of the Transactions, neither Sinopec Tech nor KSD is a subsidiary of the Company. Upon completion of the Transactions, the Group will no longer hold any equity interest in Sinopec Tech. KSD will become a subsidiary of the Company and its financial statements will be included in the consolidated financial statements of the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CPC is the controlling shareholder of the Company (directly and indirectly holding 67.36% of the issued shares of the Company). CPC also directly or indirectly controls Sinopec Corporation and Sinopec Tech. Therefore, under Chapter 14A of the Listing Rules, Sinopec Corporation and Sinopec Tech are both associates of CPC and are also connected persons of the Company. Thus, the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of each of the Swap of Equity Interests and the Disposal exceed 0.1% but fall below 5%, the Transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, but are exempt from independent shareholders' approval requirements.

I. INTRODUCTION

The Board is hereby to announce that on 30 June 2024, SSEC, a wholly-owned subsidiary of the Company, entered into the KSD Equity Transfer Agreement with Sinopec Tech, pursuant to which, SSEC agrees to acquire the 14.65% equity interests held by Sinopec Tech in KSD and Sinopec Tech agrees to repurchase its 7% equity interests held by SSEC. On the same date, SEI, LPEC and SNEC, the wholly-owned subsidiaries of the Company, entered into the Sinopec Tech Equity Transfer Agreement with Sinopec Corporation, pursuant to which, SEI, LPEC and SNEC agree to sell the 28% equity interests in aggregate held in Sinopec Tech to Sinopec Corporation.

II. PRINCIPAL TERMS OF THE TRANSACTION AGREEMENTS

1. Principal Terms of the KSD Equity Transfer Agreement

Date:	30 June 2024
Parties:	1) Sinopec Tech 2) SSEC
Transaction subjects:	The 14.65% equity interests held by Sinopec Tech in KSD (the "**Acquisition Subject Interests**") and the 7% equity interests originally and directly held by SSEC in Sinopec Tech (the "**Repurchase Subject Interests**").
Consideration and basis of pricing:	Sinopec Tech agrees to transfer the Acquisition Subject Interests to SSEC and agrees to repurchase the 7% equity interests originally and directly held by SSEC in Sinopec Tech. The consideration payable by Sinopec Tech for the Repurchase Subject Interests (approximately RMB31 million) constitutes a debt of Sinopec Tech to SSEC, which will be offset by the consideration for the 14.65% equity interests in KSD sold by Sinopec Tech to SSEC (approximately RMB22 million). The difference of the consideration for the Swap of Equity Interests shall be paid in cash, amounting to approximately RMB9 million (the "**Shortfall**").

The considerations for the Acquisition Subject Interests and the Repurchase Subject Interests are determined after arm's length negotiations between both parties to the agreement with reference to the valuation results using the income approach in the Asset Valuation Report on the Swap of Equity Interests filed to CPC. As of the Valuation Benchmark Date, the book value of the owners' interests of KSD was approximately RMB117 million, and the value of the entire shareholders' interests after valuation under the income approach was approximately RMB150 million, representing an increase of RMB33 million. As of the Valuation Benchmark Date, the book value of the owners' interests of Sinopec Tech was approximately RMB345 million, and the value of the entire shareholders' interests after valuation under the income approach was approximately RMB443 million, representing an increase of RMB98 million. The values of the shareholders' interests after valuation of the Acquisition Subject Interests and the Repurchase Subject Interests are approximately RMB22 million and RMB31 million, respectively. The difference of the consideration for the Swap of Equity Interests is approximately RMB9 million.

Payment of consideration and closing:	Sinopec Tech shall pay the Shortfall in a lump sum to SSEC and pay the cash consideration to the designated account within 15 working days after all the conditions precedent set out in the KSD Equity Transfer Agreement have been satisfied or duly waived. The Acquisition Subject Interests shall be deemed to be transferred and delivered to SSEC on the closing date (i.e. 1 July 2024).
Effective conditions:	Upon approval by the Board, the KSD Equity Transfer Agreement shall be duly signed by the parties and become effective on the signing date of the agreement.

2. Principal Terms of the Sinopec Tech Equity Transfer Agreement

Date:	30 June 2024
Parties:	1) SEI, LPEC and SNEC (as the sellers); 2) Sinopec Corporation (as the purchaser)
Transaction subjects:	14%, 7% and 7% equity interests in Sinopec Tech held by SEI, LPEC and SNEC, respectively, totaling 28% equity interests in Sinopec Tech. As the Disposal is to be carried out after the completion of the Swap of Equity Interests and capital reduction of Sinopec Tech, by then the equity interests held by SEI, LPEC and SNEC in Sinopec Tech would be 15.05%, 7.53% and 7.53%, respectively, changing to 30.1% equity interests in Sinopec Tech in aggregate (the "**Disposal Subject Interests**").

Consideration and basis of pricing:	Sinopec Corporation agrees to pay RMB61 million, RMB31 million and RMB31 million (totaling RMB123 million) to SEI, LPEC and SNEC, respectively, as consideration for the Disposal. The consideration for the Disposal is determined after arm's length negotiations among the parties with reference to the valuation results using the income approach in the Asset Valuation Report on the Disposal filed to CPC. The Asset Valuation Report on the Disposal was made after the simulated completion of the Swap of Equity Interests and capital reduction of Sinopec Tech. As of the Valuation Benchmark Date, the simulated book value of the owners' interests of Sinopec Tech was approximately RMB313 million, and the value of the entire shareholders' interests after valuation under the income approach was approximately RMB406 million, representing an increase of RMB93 million. The simulation is based on the fact that after the completion of the Swap of Equity Interests and capital reduction of Sinopec Tech. The Disposal will be carried out after the completion of the Swap of Equity Interests and capital reduction of Sinopec Tech which is mainly based on the need for the Company to comprehensively coordinate the two transactions as a whole, taking into account the time, transaction costs and the complexity of the actual implementation of the transaction. Upon completion of the Swap of Equity Interests, the 7% equity interest held by SSEC (with its original capital contribution of RMB3.5 million) will be swapped with 14.65% equity interest in KSD, resulting in a corresponding capital reduction of Sinopec Tech. Upon simulated completion of the capital reduction of Sinopec Tech, its registered capital will be changed from RMB50 million to RMB46.5 million, and the respective shareholdings of SEI, LPEC and SNEC in Sinopec Tech will be changed to 15.05% (with a capital contribution of RMB7 million), 7.53% (with a capital contribution of RMB3.5 million) and 7.53% (with a capital contribution of RMB3.5 million) respectively.). Accordingly, the consideration of the Disposal was determined based on the aforesaid shareholding percentages. The values of the shareholders' interests after valuation of the corresponding Disposal Subject Interests held by SEI, LPEC and SNEC are approximately RMB61 million, RMB31 million and RMB31 million, respectively.

Payment of consideration and closing:	Sinopec Corporation shall pay the consideration for the Disposal in a lump sum to the aforesaid sellers in cash. Payment of the consideration shall be made to the designated account within 15 working days after all the conditions precedent set out in the Sinopec Tech Equity Transfer Agreement have been satisfied or duly waived. The Disposal Subject Interests shall be deemed to be transferred and delivered to Sinopec Corporation on the closing date.
Effective conditions:	Upon approval by the Board, the Sinopec Tech Equity Transfer Agreement shall be duly signed by the parties and become effective on the signing date of the agreement.

3. Conditions Precedent to the Closing of the Transaction Agreements

1. The Transaction Agreements and the Transactions shall have been approved by the respective internal competent decision-making authorities of the parties through the required procedures in accordance with the requirements of their respective articles of association and applicable laws and regulations;

2. No laws, rules or regulations shall have been issued or promulgated by any competent government authority that would prohibit the consummation of the Transactions; and no order or injunction shall have been issued by any competent court that would preclude the consummation of the Transactions;

3. All necessary approvals, consents, filings or certificates from the government or its authorized agencies required for the Transaction Agreements and the Transactions, including the approval of the Transactions to be issued by CPC to fulfill its supervision and management functions of state-owned assets, and material third party consents shall have been obtained, except for the legal procedures under applicable laws and regulations and the documents arising therefrom that may only be dealt with after the closing;

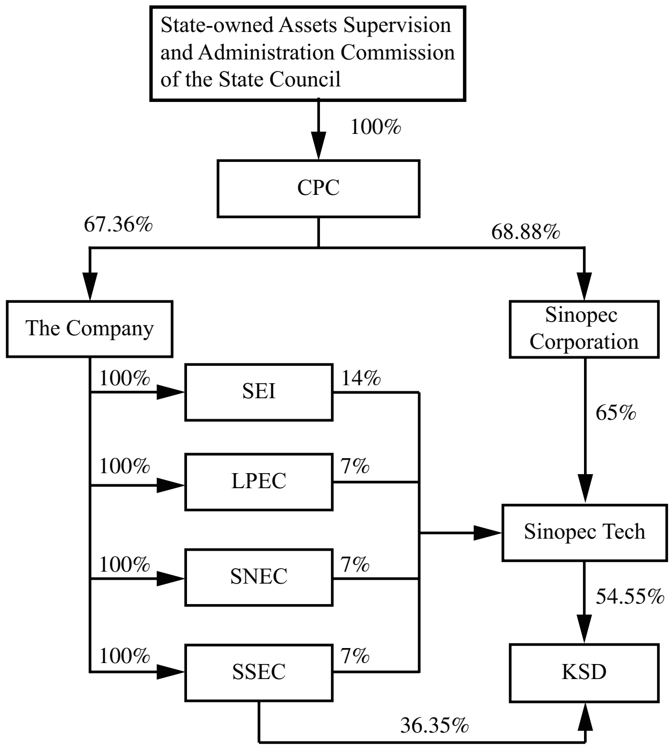
4. The Transaction Agreements and the transfers thereunder shall have been approved by the Board, subject to the compliance with relevant provisions of the Listing Rules and the satisfaction of the requirements of the Stock Exchange from time to time;

5. The representations and warranties given by the parties under the Transaction Agreements shall be true and accurate in all material respects, and no material facts shall have been omitted as at the closing date;

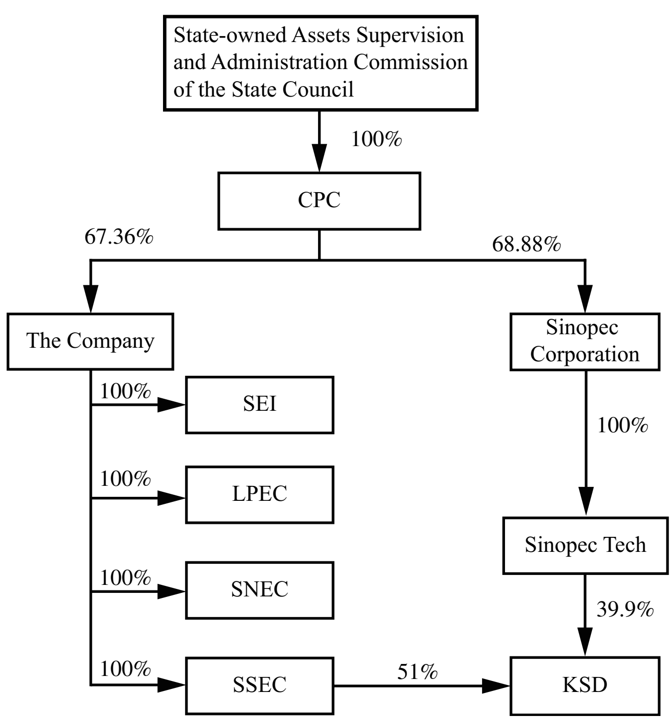
6. The parties shall have complied with their undertakings given under the Transaction Agreements in all material respects.

III. SHAREHOLDING STRUCTURES BEFORE AND AFTER THE TRANSACTIONS

The shareholding structure before the Transactions is as follows:



The shareholding structure after the Transactions is as follows:



IV. PROFIT FORECAST

China United has conducted an independent valuation of Sinopec Tech and KSD, respectively. As at the Valuation Benchmark Date, the appraised values of the 100% equity interests in Sinopec Tech and KSD were determined based on the valuation reports and valuation explanations adopting the income approach and taking into account the cash flow forecast of relevant business. As Sinopec Tech is not a subsidiary of the Company before and after completion of the Transactions and KSD will become a subsidiary of the Company after completion of the Transactions, the valuation of KSD constitutes a profit forecast required to be disclosed under Rule 14.60A of the Listing Rules. Details of the summary of the Asset Valuation Reports, including valuation assumptions, are set out in Appendix I to this announcement.

Having reviewed the Asset Valuation Reports and taking into consideration (i) that China United has prepared the Asset Valuation Reports and valuation explanations in accordance with the procedures, standards, laws and regulations in relation to valuation in the PRC; (ii) that China United has reviewed the financial data, operating data and other relevant data in relation to KSD to gain a comprehensive understanding of the company; and (iii) the reasons for adopting the income approach in the valuation, the methodology and assumptions, the valuation scope and valuation results adopted by China United, the Board is of the view that the valuation results have reflected the value of KSD and are fair and reasonable.

Grant Thornton has reviewed the calculation method of the discounted cash flow forecast on which the appraised value is based, excluding the reasonableness of the adopted accounting policies and assumptions. The Board confirms that the profit forecasts (including the assumptions) in respect of KSD set out in the Asset Valuation Reports and valuation explanations have been made after due and careful enquiry. Please refer to Appendix II to this announcement for the letters from Grant Thornton and the Board.

Experts Information

The following are the qualifications of the relevant experts who have given their opinions and advices included in this announcement:

Name	Qualification
China United Assets Appraisal Group Co., Ltd.	A qualified valuer in the PRC
Grant Thornton (Special General Partnership)	Certified Public Accountant

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, as at the date of this announcement, the above experts do not have any shareholding, directly or indirectly, in the Company and its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company and its subsidiaries.

As at the date of this announcement, the above experts have given and have not withdrawn their consent to the publication of this announcement with inclusion of their reports and/or reference to their names in the form and context in which they appear.

V. INFORMATION ON THE TARGET COMPANIES

Sinopec Tech

Sinopec Tech is a company incorporated in the PRC with limited liability in 1990, and its main business includes: technology promotion services; geological exploration; goods import and export; import and export agency; technology import and export; sales of chemical products (excluding hazardous chemicals), machinery and equipment, apparatus and instruments, computers, software and auxiliary equipment. The Group has been a shareholder of Sinopec Tech since its establishment.

The audited financial information of Sinopec Tech for the two financial years ended 31 December 2023 is set out below:

Unit: RMB Yuan

	Year ended 31 December 2023	**Year ended 31 December 2022**
Net profit before taxation	57,667,846.73	56,069,381.36
Net profit after taxation	44,515,048.89	46,388,032.77
	As at 31 December 2023	**As at 31 December 2022**
Total assets	1,788,393,113.21	1,828,068,041.41
Net assets	466,660,454.40	448,176,601.80

KSD

KSD is a company incorporated in the PRC with limited liability in 2003, principally engaged in development of conveyance technology of powder and granule materials, transfer of proprietary technologies, and provision of integration and installation guidance on conveyance engineering equipment of powder materials as well as related technology consultancy and technology services. Sinopec Tech has been a shareholder of KSD since its establishment.

The audited financial information of KSD for the two financial years ended 31 December 2023 is set out below:

Unit: RMB Yuan

	Year ended 31 December 2023	**Year ended 31 December 2022**
Net profit before taxation	16,237,048.43	16,048,084.20
Net profit after taxation	15,026,786.50	14,563,787.41
	As at 31 December 2023	**As at 31 December 2022**
Total assets	161,655,752.15	243,184,489.60
Net assets	109,760,407.18	97,483,620.68

As at 31 December 2020 and 31 December 2021, the net assets of KSD were RMB75.97 million and RMB85.67 million, respectively. During the two years ended 31 December 2020 and 31 December 2021, the net profit after taxation of KSD were RMB12.31 million and RMB12.44 million, respectively. KSD has maintained good profitability for recent nine years.

VI. FINANCIAL EFFECT OF DISPOSAL OF EQUITY INTERESTS IN SINOPEC TECH AND USE OF PROCEEDS

The Company expects to record an unaudited one-off gain of approximately RMB35 million from the Disposal of Equity Interests in Sinopec Tech, which is calculated and determined based on the total consideration for the Disposal of Equity Interests in Sinopec Tech and relevant costs.

The Company intends to utilize the proceeds from the Disposal of Equity Interests in Sinopec Tech to supplement the daily working capital of the Group.

VII. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Recently, Sinopec Tech is carrying out business adjustment and improving its shareholding structure, and the overseas scientific research and investment platform and other areas to which it devotes efforts are no longer in line with the principal strategic direction of the Group. Upon the completion of the Transactions, the Company will further focus on its core business and allocate resources on the areas with huger competitiveness and greater growth potential. Meanwhile, the Disposal of Equity Interests in Sinopec Tech is in line with expectation and can generate corresponding capital, which is beneficial to improving the Group's financial position and meeting the capital needs for subsequent settlement of debts of subsidiaries and other equity investments.

KSD has a good synergy foundation with SSEC. After the completion of the Transactions, SSEC can further give full play to the aforesaid synergistic advantages by verifying or directly implementing the scientific research and development results through KSD, so as to realize the extension of the industrial chain. Meanwhile, SSEC's successful holding of KSD can form a virtuous cycle of mutual promotion of scientific and technological innovation and scientific and technological achievements, which will further enhance the Group's core competitiveness and profitability, and will be conducive to bringing a reasonable return on investment for the Group.

The Directors (including independent non-executive Directors) of the Company are of the view that although the Transactions are not ordinary and usual course of business of the Company, they are entered into on normal commercial terms, the transaction terms are fair and reasonable and in the interests of the Company and the shareholders as a whole.

VIII. LISTING RULES IMPLICATIONS

As at the date of this announcement, CPC is the controlling shareholder of the Company (directly and indirectly holding 67.36% of the issued shares of the Company). CPC also directly or indirectly controls Sinopec Corporation and Sinopec Tech. Therefore, under Chapter 14A of the Listing Rules, Sinopec Corporation and Sinopec Tech are both associates of CPC and are also connected persons of the Company. Thus, the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of each of the Swap of Equity Interests and the Disposal exceed 0.1% but fall below 5%, the Transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, but are exempt from independent shareholders' approval requirements.

Prior to the completion of the Transactions, neither Sinopec Tech nor KSD is a subsidiary of the Company. Upon completion of the Transactions, the Group will no longer hold any equity interest in Sinopec Tech. KSD will become a subsidiary of the Company and its financial statements will be included in the consolidated financial statements of the Group.

Pursuant to relevant provisions under the Listing Rules and the Articles of Association of the Company, as XIANG Wenwu, LI Chengfeng and YU Renming, the Directors, concurrently hold positions in CPC, they have abstained from voting for the Board resolutions in respect of the Transactions. Save as disclosed above, none of the Directors have material interest in the Transactions. Therefore, no other Directors abstained from voting for such Board resolutions.

IX. GENERAL INFORMATION

The Company

The Company is a joint stock limited company established in the PRC, principally provides engineering services covering oil refining, petrochemicals, new coal chemicals, inorganic chemicals, pharmaceutical chemicals, clean energy, storage and transportation engineering, environmental engineering and energy saving engineering, among other industry sectors, and provides overall services across business chain including technology R&D and licensing, preliminary consulting, financing assistance, design, procurement, construction and pre-commissioning and start-up. As at the date of this announcement, CPC is the controlling shareholder of the Company.

Sinopec Corporation

China Petroleum & Chemical Corporation is a joint stock limited company established in the PRC, principally engaged in the exploration and production, pipeline transportation and sales of petroleum and natural gas; the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fiber and other chemical products; the import and export, including import and export agency business, of petroleum, natural gas, petroleum products, petrochemicals and chemical products, and other commodities and technologies; research, development and application of technologies and information. CPC holds 68.88% equity interest in Sinopec Corporation and is its controlling shareholder.

SEI

Sinopec Engineering Incorporation is a company established in the PRC with limited liability, principally engaged in technical services, technology development, technology consulting, technology exchanges, technology transfer, technology promotion, engineering cost consulting business, external engineering contracting, engineering management services, industrial engineering design services, construction engineering design, construction, supervision, special equipment design, external labor cooperation and other businesses.

LPEC

Luoyang Petrochemical Engineering Corporation Ltd. is a company established in the PRC with limited liability, principally engaged in engineering and technology research and experimental development, engineering technology and design services, industrial and professional design and services, energy conservation, new energy, environmental protection and other technology promotion services, environmental protection monitoring and other businesses.

SNEC

Sinopec Ningbo Engineering Co., Ltd. is a company established in the PRC with limited liability, principally engaged in design and construction of construction projects, design, manufacturing, installation, transformation and repair of special equipment; engineering management, external engineering contracting, engineering cost consulting, industrial engineering design services and other businesses.

SSEC

Sinopec Shanghai Engineering Co., Ltd. is a company established in the PRC with limited liability, principally engaged in construction design and project management of chemical, petrochemical, pharmaceutical, oil and gas and architectural specialty construction, engineering contracting, consulting and supervision of chemical, petrochemical, pharmaceutical, oil and gas and architectural specialty construction and other businesses.

X. DEFINITIONS

In this announcement, unless otherwise indicated in the context, the following terms have the meanings set out below:

"Asset Valuation Report on the Disposal"	the Asset Valuation Report on the Project of the Value of the Entire Shareholders' Equity Interests of China Petrochemical Technology Co., Ltd. in relation to the Proposed Transfer of Equity Interests by 3 Companies including Sinopec Engineering Incorporation issued by China United
"Asset Valuation Report on the Swap of Equity Interests"	the Asset Valuation Report on the Project of the Value of the Entire Shareholders' Equity Interests of Shanghai KSD Bulk Solids Engineering Co., Ltd. in relation to the Proposed Swap of Equity Interests by China Petrochemical Technology Co., Ltd. and the Asset Valuation Report on the Project of the Value of the Entire Shareholders' Equity Interests of China Petrochemical Technology Co., Ltd. in relation to the Proposed Swap of Equity Interests by China Petrochemical Technology Co., Ltd. issued by China United
"Asset Valuation Reports"	the Asset Valuation Report on the Disposal and the Asset Valuation Report on the Swap of Equity Interests
"Board"	the board of directors of the Company
"China United"	China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司)
"Company"	SINOPEC Engineering (Group) Co., Ltd., a joint stock limited company incorporated in the PRC, whose H shares are listed on the Main Board of the Stock Exchange (stock code: 02386)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder(s)	has the meaning ascribed to it under the Listing Rules
"CPC"	China Petrochemical Corporation
"Director(s)"	all directors of the Company
"Disposal"	SEI, LPEC and SNEC sell their 28% equity interests in aggregate held in Sinopec Tech to Sinopec Corporation in accordance with the Sinopec Tech Equity Transfer Agreement
"Disposal of Equity Interests in Sinopec Tech"	the Disposal and Sinopec Tech repurchases its 7% equity interests held by SSEC

"Grant Thornton"	Grant Thornton (Special General Partnership) (致同會計師事務所(特殊普通合夥))
"Group"	the Company and its subsidiaries
"KSD"	Shanghai KSD Bulk Solids Engineering Co., Ltd. (上海金申德粉體工程有限公司)
"KSD Equity Transfer Agreement"	the Equity Transfer Agreement in relation to Shanghai KSD Bulk Solids Engineering Co., Ltd.
"Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"LPEC"	Luoyang Petrochemical Engineering Corporation Ltd. (中石化洛陽工程有限公司)
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SEI"	Sinopec Engineering Incorporation (中國石化工程建設有限公司)
"Sinopec Corporation"	China Petroleum & Chemical Corporation, a joint stock limited company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange and H shares are listed on the Main Board of the Stock Exchange (stock code: 00386)
"Sinopec Tech"	China Petrochemical Technology Co., Ltd. (中國石油化工科技開發有限公司)
"Sinopec Tech Equity Transfer Agreement"	the Equity Transfer Agreement in relation to China Petrochemical Technology Co., Ltd.
"SNEC"	Sinopec Ningbo Engineering Co., Ltd. (中石化寧波工程有限公司)
"SSEC"	Sinopec Shanghai Engineering Co., Ltd. (中石化上海工程有限公司)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Swap of Equity Interests"	SSEC acquires the 14.65% equity interests held by Sinopec Tech in KSD and Sinopec Tech repurchases its 7% equity interests held by SSEC in accordance with the KSD Equity Transfer Agreement
"Transactions"	the Swap of Equity Interests and the Disposal
"Transaction Agreements"	the Sinopec Tech Equity Transfer Agreement and the KSD Equity Transfer Agreement
"Valuation Benchmark Date"	31 March 2024

By Order of the Board
SINOPEC ENGINEERING (GROUP) CO., LTD.
YIN Fengbing
Chief Financial Officer & Secretary to the Board

Beijing, the PRC
1 July 2024

* *For identification purposes only*

As at the date of this announcement, directors of the Company are: JIANG Dejun#, ZHANG Xinming#, XIANG Wenwu, LI Chengfeng*, YU Renming*, HUI Chiu Chung, Stephen+, DUAN Xue+, YE Zheng+, ZHAO Jinsong+ and XIE Yanli#.*

\# *Executive Directors*

* *Non-executive Directors*

\+ *Independent non-executive Directors*

This announcement is available on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and on the website of the Company (www.segroup.cn).

Appendix I – Summary of Asset Valuation Reports

Summary of the Asset Valuation Report on the Project of the Value of the Entire Shareholders' Equity Interests of China Petrochemical Technology Co., Ltd. in relation to the Proposed Swap of Equity Interests by China Petrochemical Technology Co., Ltd. and the Explanatory Notes to the Valuation of China Petrochemical Technology Co., Ltd. under the Project of the Value of the Entire Shareholders' Equity Interests of China Petrochemical Technology Co., Ltd. in relation to the Proposed Transfer of Equity Interests by 3 Companies including Sinopec Engineering Incorporation

China United Assets Appraisal Group Co., Ltd. has conducted a valuation on the market value of the entire shareholders' equity interests of China Petrochemical Technology Co., Ltd. as at the Valuation Benchmark Date in relation to the economic activity of the Transactions.

The valuation target is the entire shareholders' equity interests of China Petrochemical Technology Co., Ltd. (including those before and after the completion of the Swap of Equity Interests and capital reduction), and the valuation scope is all of the assets and liabilities of China Petrochemical Technology Co., Ltd., including current assets and non-current assets as well as corresponding liabilities. In particular, the assets and liabilities data of Sinopec Tech as at the Valuation Benchmark Date of the Asset Valuation Report on the Project of the Value of the Entire Shareholders' Equity Interests of China Petrochemical Technology Co., Ltd. in relation to the Proposed Swap of Equity Interests by China Petrochemical Technology Co., Ltd. are extracted from the balance sheet of Sinopec Tech as at 31 March 2024 as audited by Grant Thornton (Special General Partnership). The assets and liabilities data of Sinopec Tech as at the Valuation Benchmark Date of the Asset Valuation Report on the Project of the Value of the Entire Shareholders' Equity Interests of China Petrochemical Technology Co., Ltd. in relation to the Proposed Transfer of Equity Interests by 3 Companies including Sinopec Engineering Incorporation are extracted from the simulated balance sheet of Sinopec Tech as at 31 March 2024 as audited by Grant Thornton (Special General Partnership), of which, the simulation is based on the fact that after the completion of the Swap of Equity Interests and capital reduction of Sinopec Tech, the percentage of equity interests held by Sinopec Tech in KSD would change to 39.90%. The equity interests in Sinopec Tech proposed to be transferred by the 3 companies will change from 28% to 30.1% after simulation.

The Valuation Benchmark Date is 31 March 2024 and the valuation report date is 18 June 2024.

The type of value under the valuation is market value.

This valuation is conducted on the premise of continued use and open market. Taking into account the actual conditions of the entrusted valuation target and comprehensively considering various influential factors, we conducted an overall valuation of China Petrochemical Technology Co., Ltd. by adopting the asset-based approach and income approach respectively, and then reviewed and compared the valuation results. Given the applicable premise of the valuation approaches and the satisfaction of the valuation purpose, the valuation results under the income approach are selected as the final valuation conclusion.

Based on the judgement of equity holders and the management of the enterprise on the future development trend and business plans, the valuation conclusion is arrived at after conducting the valuation procedures, such as examination and verification, site inspection, market survey and confirmation, as well as assessment and estimation.

I. VALUATION ASSUMPTIONS

In this valuation, the valuers followed the below valuation assumptions:

(I) General Assumptions

1. Transaction assumption

The transaction assumption is to assume that all assets to be appraised are in the process of transaction, and the appraiser conducts valuation in the simulated market based on the transaction conditions of the assets to be appraised. Transaction assumption is the most fundamental assumption for the implementation of asset valuation.

2. Open market assumption

The open market assumption is to assume that both parties to a transaction in respect of the assets traded in the market or to be traded in the market are on an equal footing with each other and have access and time to acquire sufficient market information in order to make rational judgments on the function, use of the assets and their transaction price. The open market assumption is based on the fact that the assets can be traded publicly in the market.

3. Enterprise going-concern assumption

The enterprise going-concern assumption is a valuation assumption made by considering the whole assets of the enterprise as the valuation target. That is, the enterprise, as a business entity, continues to operate in accordance with its business objectives in the external environment where it operates. The operator of the enterprise is responsible and competent for assuming responsibilities; the enterprise operates legally and is able to make appropriate profits to maintain its ability to continue as a going concern. All types of operating assets of the enterprise can be used continuously according to the current purpose and the manner, scale, frequency and environment of use, etc., or used on the basis of changes.

(II) Special Assumptions

1. There will be no material changes to the relevant prevailing laws, regulations and policies, and in the macroeconomic situation of the PRC; there will be no material change in political, economic and social environment of the regions where the parties to the Transactions are located.

2. In respect of the actual status of the assets on the Valuation Benchmark Date, it is assumed that the enterprise operates as a going concern.

3. It is assumed that the operator of the appraised entity is responsible and that the management of the company is capable of performing its duties.

4. Unless otherwise specified, it is assumed that the company fully complies with all relevant laws and regulations.

5. It is assumed that the business scope and mode of the company are consistent with the current direction on the basis of the existing management mode and management level.

6. For this valuation, it is assumed that in the future forecast period, among other things, the main businesses, product structure, income and cost composition as well as sales strategies and cost control for the valuation target would maintain its status upon attaining production capacity and construction, and no significant change would occur.

7. In the future forecast period, there will be no material changes in the various expenses of the valuation target on the existing basis, but will continue to maintain its changing trend in recent years and will change simultaneously along with the changes in business scale.

8. In the future forecast period, the valuation target's other receivables – Sinopec Catalyst Co., Ltd. – deposit funds will continue to earn interest income based on the current deposit model and average interest rate.

9. There will be no material changes in respect of interest rates, exchange rates, tax basis and tax rates, and policy-based levies, etc.

10. There will be no other force majeure factors and unpredictable factors which would have material and adverse effects on the enterprise.

The valuation agency will not be liable to derive a different valuation conclusion due to changes in assumptions when there is a material change in the economic environment.

II. VALUATION APPROACHES

(I) Selection of Valuation Approach

The income approach in the valuation for enterprise value refers to the valuation approach that capitalizes or discounts expected income to determine the value of the valuation target. The professional valuer of assets shall consider the suitability of the income approach appropriately after taking into comprehensive consideration of the business nature, asset size, historical operations, future profit forecast, and adequacy of information collected for assessment.

The market approach in the valuation for enterprise value refers to the valuation approach that compares the valuation target with comparable listed enterprises or comparable transaction cases to determine the value of the valuation target. The professional valuer of assets shall consider the suitability of the market approach based on the adequacy and reliability of the comparable enterprises' operation and financial data obtained, and the number of comparable enterprises available.

The asset-based approach in the valuation for enterprise value refers to the valuation approach that, based on the balance sheet of the appraised entity as at the Valuation Benchmark Date, appraises the value of all identifiable assets and liabilities on– and off-balance sheet to determine the value of the valuation target. It specifically means the approach of calculating an enterprise's value by adding up the appraised value of assets which are the various elements that constitute the enterprise and deducting the appraised value of liabilities.

The asset-based approach reflects an enterprise's value from the perspective of enterprise construction and provides a basis for the operation, management and assessment of the enterprise after the completion of economic activity, therefore the asset-based approach is selected for this valuation.

As the appraised entity has the foundation and conditions to continue as a going concern, and future profit and risks are predictable and quantifiable, the income approach can be selected for this valuation.

Around the Valuation Benchmark Date, because the recent transaction cases involving enterprises of the same size are not available, and there are few comparable listed companies with the same size and business structure in the market, the market approach is not selected for this valuation.

In summary, the asset-based approach and income approach are adopted in this valuation.

(II) Income Approach

1. Income approach valuation model

(1) Valuation methodology

According to the due diligence findings and the asset composition and characteristics of main business of the appraised entity, the valuation estimates the equity capital value of the appraised entity based on its parent company's financial statements. The basic valuation methodologies for this valuation are as follows:

1) For the assets and main business included in the scope of the statements, the expected income (net cash flow) shall be forecasted according to the change trend of historical operations and business types, and discounted to arrive at the value of the operating assets;

2) For current assets (liabilities) such as dividends receivable (payable) and non-current assets (liabilities) such as obsolete or idle equipment, real property and construction in progress not recorded in the profit and loss that exist as at the benchmark date, which are included in the scope of the statements but have not been taken into account in the forecast of expected income (net cash flow), they shall be defined as surplus or non-operating assets (liabilities) existed as at the benchmark date and their values shall be estimated separately;

3) For long-term equity investments which are included in the scope of the statements but have not been taken into account in the estimation of expected income (net cash flow), their values are estimated separately;

4) The enterprise value of the appraised entity would be arrived at by adding up the values of the above assets and liabilities, and the value of the equity capital (entire shareholders' equity interests) in the appraised entity would be arrived at after deducting the value of interest-bearing debts as at the benchmark date.

When determining the value of the entire shareholders' equity interests, the appraiser does not take into account the premium or discount caused by such factors as controlling interests and minority interests, nor impact of the liquidity of the equity interests on the valuation results.

(2) Valuation model

1) Basic model

The basic model for this valuation is:

$$E=B-D \qquad (1)$$

Where:

E: Value of the entire shareholders' equity interests (net assets) of the appraised entity;

B: Enterprise value of the appraised entity;

D: Value of the interest-bearing debts of the appraised entity;

$$B=P+I+C \qquad (2)$$

Where:

P: Value of the operating assets of the appraised entity;

I: Value of long-term investments of the appraised entity as at the benchmark date;

C: Value of surplus or non-operating assets (liabilities) existing at the benchmark date of the appraised entity;

$$P=\sum_{i=1}^{n}\frac{R_i}{(1+r)^i}+\frac{R_{n+1}}{r(1+r)^n} \qquad (3)$$

Where:

R_i: Expected income (free cash flow) of the appraised entity in year i in the future;

r: Discount rate;

n: Future operating period of the appraised entity;

$$C=C_1+C_2 \qquad (4)$$

C_1: Value of current surplus or non-operating assets (liabilities) as at the benchmark date;

C_2: Value of non-current surplus or non-operating assets (liabilities) as at the benchmark date

2) Income indicators

In this valuation, the free cash flow of enterprise is used as an income indicator for the operating assets of the appraised entity. Its basic definition is as follows:

R = profit before interest and tax × (1-t) + depreciation and amortization – additional capital (5)

The appraised entity's free cash flow in the future operation period is estimated according to its operation history, market development in the future and etc. The free cash flow in the future operation period is discounted and added up to arrive at the value of the enterprise's operating assets.

3) Discount rate

In this valuation, the weighted average cost of capital (WACC) model is used to determine the discount rate r

$$r=r_d \times w_d+r_e \times w_e \qquad (6)$$

Where:

W_d: Debt ratio of the appraised entity;

$$w_d = \frac{D}{(E+D)} \qquad (7)$$

W_e: Equity ratio of the appraised entity;

$$w_e = \frac{E}{(E+D)} \qquad (8)$$

r_d: Interest rate of interest-bearing debts after income tax;

r_e: Cost of equity capital. In this valuation, the cost of equity capital r_e is determined by the capital asset pricing model (CAPM);

$$r_e=r_f+\beta_e \times (r_m-r_f)+\varepsilon \qquad (9)$$

Where:

r_f: Risk-free return rate;

r_m: Expected market rate of return;

ε: Specific risk-adjusted factor for the appraised entity;

β_e: Expected market risk factor of the equity capital of the appraised entity;

$$\beta_e = \beta_u \times (1+(1\text{-t})\times\frac{D}{E}) \qquad (10)$$

β_u: Expected unlevered market risk factor of comparable companies;

$$\beta_u = \frac{\beta_t}{1+(1\text{-t})\ \frac{D_i}{E_i}} \qquad (11)$$

β_t: Expected average market risk factor of stocks (assets) of comparable companies;

$$\beta_t=34\%K+66\%\beta_x \qquad (12)$$

Where:

K: The average risk value of the stock market in a certain period, for which it normally assumes that K = 1;

β_x: Historical market average risk factor of stocks (assets) of comparable companies;

D_i, E_i: Interest-bearing debts and equity capital of comparable companies, respectively.

$$r=r_d\times w_d+r_e\times w_e \qquad (6)$$

Where:

W_d: Debt ratio of the appraised entity;

$$w_d = \frac{D}{(E+D)} \qquad (7)$$

W_e: Equity ratio of the appraised entity;

$$w_e = \frac{E}{(E+D)} \qquad (8)$$

r_d: Interest rate of interest-bearing debts after income tax;

r_e: Cost of equity capital. In this valuation, the cost of equity capital r_e is determined by the capital asset pricing model (CAPM);

$$r_e=r_f+\beta_e\times(r_m-r_f)+\varepsilon \qquad (9)$$

Where:

r_f: Risk-free return rate;

r_m: Expected market rate of return;

ε: Specific risk-adjusted factor for the appraised entity;

β_e: Expected market risk factor of the equity capital of the appraised entity;

$$\beta_e = \beta_u \times (1+(1\text{-t})\times\frac{D}{E}) \qquad (10)$$

β_u: Expected unlevered market risk factor of comparable companies;

$$\beta_u = \frac{\beta_t}{1+(1\text{-t})\dfrac{D_i}{E_i}} \qquad (11)$$

β_t: Expected average market risk factor of stocks (assets) of comparable companies;

$$\beta_t=34\%K+66\%\beta_x \qquad (12)$$

Where:

K: The average risk value of the stock market in a certain period, for which it normally assumes that K = 1;

β_x: Historical market average risk factor of stocks (assets) of comparable companies;

D_i, E_i: Interest-bearing debts and equity capital of comparable companies, respectively.

2. Determination of the income period

According to the articles of association of the appraised entity, the enterprise has a long operating term and the appraised entity was under normal operation as at the Valuation Benchmark Date. There are no limitations on the useful life of the core assets that affect the enterprise's operation on a going concern basis and on the production 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, in this valuation, it is assumed that the appraised entity operates on a going concern basis after the Valuation Benchmark Date and the corresponding income period is indefinite.

3. Determination of future income

(1) Estimation of operating income and operating costs

The main business of Sinopec Tech is technology licensing. Adopting the model of signing "back-to-back" contracts, it is responsible for signing technology licensing contracts with the owners of technology demand side on the sales side. Usually, the contract amount ranges from RMB10 million to RMB100 million, and the contract period starts at the point of time of licensing the technology use rights to the owners, and ends at the point of time when the owners complete the acceptance of the project device construction, with contract performance period ranging from three to five years or more. Sinopec Tech recognizes revenue and invoices to settle project payments based on the technology licensing contracts signed with the owners. Sinopec Tech claims the right to collect payment and bears credit risk. On the procurement side, as each technology development entity that jointly develops patented technology is the actual patent holder, who would enter into technology licensing contracts or technology payment sharing agreements with Sinopec Tech, respectively based on the patented technology licensed by Sinopec Tech to the owners entity on the sales side, Sinopec Tech shall be liable for payments to such technology development entities after it confirms the costs and payables corresponding to the realized revenue based on the technology licensing contracts or technology payment sharing agreements.

In this valuation, we have investigated the status of technology licensing contracts and technical service contracts entered into by the enterprise in relation to refining and chemical technology, and discussed and analyzed with the management of the appraised entity based on information such as historical prices, supply-demand relations, and industry development trends.

a) Technology licensing projects

The business income related to the technology licensing projects is the main business of the appraised entity. The valuation is primarily based on the amount of pending contracts, budgets, future development plans and estimated income of the appraised entity.

Sinopec Tech adopts the model of signing "back-to-back" contracts, whose major cost is the technology licensing fee paid to research units. Therefore, it considers the average gross profit margin in the historical periods and the future development direction.

Technical service projects

The technical service business mainly refers to the income realized from the provision of related business support services by Sinopec Tech when the Company is entrusted by the Sinopec Group Headquarter to carry out scientific research and consulting cooperation among scientific research units and related enterprises and universities. The business is forecasted based on the budget for 2024 and the actual situation in the historical periods.

Technology royalties

Technology royalties are forecasted based on the status of current outstanding contracts.

(2) Forecast of taxes and surcharges

The taxes and surcharges of the appraised entity include urban maintenance and construction tax, education surcharge and local education surcharge, stamp tax and vehicle and vessel tax. Urban maintenance and construction tax, education surcharge and local education surcharge are calculated based on the amount of value-added tax paid; stamp tax is predicted based on a certain proportion of income; vehicle and vessel tax is predicted based on actual payment in the historical periods.

(3) Forecast of expenses for the period

1) Forecast of sales expenses

Sales expenses mainly refer to employee compensations, depreciation of fixed assets, travel expenses, office expenses, etc.

Wages and benefits are forecasted based on the enterprise's wage payment standards. Travel expenses, office expenses and other expenses are considered to increase slightly based on historically incurred amounts. Depreciation is forecasted based on the enterprise's original value of fixed assets and depreciation provision standards.

2) Forecast of administrative expenses

Administrative expenses of the enterprise mainly refer to employee compensations, depreciation of fixed assets, depreciation of right-of-use assets, external labour (processing) fee, etc.

Wages are forecasted based on the enterprise's wage payment standards. Depreciation is forecasted based on the enterprise's original value of fixed assets and depreciation provision standards. Related rents are forecasted based on rent payment standards. Other expenses such as office expenses and transportation expenses are forecasted based on historically incurred amounts.

3) Forecast of R&D expenses

R&D expenses of the enterprise mainly refer to technical cooperation fee.

The forecast of technical cooperation fee is determined based on the enterprise's future business plan.

(4) Forecast of financial expenses

In this valuation, future handling fee is forecasted based on the level of handling fee of the appraised entity in the historical periods.

The enterprise's other receivables – Sinopec Catalyst Co., Ltd. – deposit funds and other payables – undistributed amounts of technology licensing projects are significant and relevant to business operations. The enterprise will take corresponding measures in future operations to improve the accumulated amount of other payables year by year. This valuation considers the interest income of other receivables – Sinopec Catalyst Co., Ltd. – deposit funds to be deposited in Sinopec Catalyst Co., Ltd. in the future forecast period.

(5) Forecast of income tax

Income tax is determined based on the product of operating profit multiplied by the income tax rate of the company.

(6) Forecast of depreciation and amortization

The assets of the appraised entity subject to provision of depreciation are fixed assets, mainly including vehicles and electronic equipment, etc. Fixed assets are valued at the actual cost at the time of acquisition. In this valuation, the depreciation amount for future operating periods was estimated in accordance with the depreciation policy for fixed assets implemented by the enterprise, and based on the original book value of fixed assets as of the benchmark date, expected useful life and weighted depreciation rate, etc.

(7) Forecast of additional capital

Additional capital refers to the working capital required to be increased and long-term capital input exceeding one year without changing the current operating and production conditions of the enterprise, such as the capital investment required for expansion of production capacity (fixed assets or other non-current assets purchased), as well as the additional working capital required and asset replacement necessary for continued operation.

Therefore, the additional capital as defined in this report, is:

Additional capital = asset replacement + increase in working capital + capital expenditure

1) Estimation of asset replacement investment

Based on the premise and foundation of the earnings forecast, only replacement investment expense necessary for maintaining the production and operation after capacity expansion is required for each of future years. Depreciation is provided for fixed assets of headquarters according to the accounting policy standard implemented by the enterprise, and replacement is forecasted by way of replacement equivalent to depreciation during the perpetual period.

2) Estimation of increase in working capital

The increase in working capital refers to the operating capital that the enterprise requires to be increased, without changing the current conditions of its main business, so as to maintain normal operations, which are additional funds needed to maintain the enterprise's ability to operate on a going concern basis, such as cash required to maintain for normal operations, advance payments for goods (receivables) on behalf of customers and other basic capital required, as well as payables. The increase in working capital refers to the cash occupied by acquiring commercial credit of others due to changes in the enterprise's operating activities, as well as the cash and inventory required to maintain normal operations. Meanwhile, in economic activities, providing commercial credit can correspondingly reduce the immediate payment of cash. Usually, the accounting contents of other receivables and other payables are substantially related party transactions or non-operating transactions. Taxation and payroll payable are mainly incurred during the operation with relatively short turnover days, short default time and small amount.

In principle, estimating the increase in working capital only needs to consider the main factors such as cash (minimum cash holdings), inventory, receivables and payables required to maintain normal operations. The increase in working capital as defined in this report, is:

Increase in working capital = working capital in the current period – working capital in the previous period

Based on the investigation on the operating conditions of the valuation target and the statistical analysis of the assets and profit or loss, income and costs and expenses of historical operations as of the benchmark date, as well as the estimation results of the income and costs for each year during future operating periods, and according to the above definition, the operating cash (minimum cash holdings), inventory, receivables as well as payables, and its increase in working capital for each year during future operating periods can be arrived at.

3) Estimation of capital expenditure

In this valuation, there was no capital expenditure.

(8) Other cash flow adjustment

Other cash flow adjustment represents the reversal of value-added tax to be deducted.

The reversal of value-added tax to be deducted was forecasted based on the actual amount of book value-added tax to be deducted in the amount of output value-added tax to be recognized of the enterprise as of the Valuation Benchmark Date, and the amount of deductible input tax combined with operating conditions for future profitable periods.

(9) Forecast of cash flow

The forecast of future earnings in this valuation was mainly, based on market research and analysis of the industry where the enterprise operates, a professional judgment made based on the comprehensive situation including the operating conditions of relevant comparable enterprises, market demands and future development of the industry. When making the forecast, the profit or loss resulting from uncertain non-operating income and expenses, subsidy income and other non-recurring operations, were not taken into consideration.

4. Determination of discount rate

(1) Risk-free interest rate r_f

With reference to website of China Appraisal Society, the yield of the treasury bonds provided by China Central Depository & Clearing Co., Ltd. (CCDC) published on such website is as follows:

Table 1. Yield of the treasury bonds of China

Date/maturity	3 months	6 months	1 year	2 years	3 years	5 years	7 years	10 years	30 years
2024-03-29	1.64%	1.66%	1.72%	1.90%	2.03%	2.20%	2.32%	2.29%	2.46%

This valuation was based on the assumption of going concern, and the yield period of the entrusted valuation target is indefinite. According to the requirements of the Guidelines for Assets Appraisal Experts No. 12 – Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach (ZPX [2020] No. 38), the yield to maturity of the treasury bonds with a remaining maturity of 10 years or more can be used as the risk-free interest rate. The yield of 10-year treasury bonds is used as the risk-free interest rate in this valuation, i.e., r_f = 2.29%.

(2) Expected market rate of return r_m

Market risk premium refers to the expected excess return required by investors for equity investment with the same average risk as the overall market, that is, the risk compensation that exceeds the risk-free interest rate. The market risk premium can usually be measured by using the historical risk premium data of the market. In this valuation, the long-term average rate of return of China's A-share market index was taken as the expected market rate of return r_m, and the part of the expected market rate of return that exceeds the risk-free interest rate was taken as the market risk premium.

According to the requirements of the Guidelines for Assets Appraisal Experts No. 12 – Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach (ZPX [2020] No. 38), when calculating the market risk premium by using China's securities market index, representative indexes shall be selected in general, such as the Shanghai and Shenzhen 300 Index, Shanghai Securities Composite Index, etc.; when calculating the excess rate of return of the index in a historical period, the time span can be more than 10 years, the data frequency can be weekly or monthly, and the calculation method can be arithmetic average or geometric average.

According to the follow-up study on China's A-share market conducted by the Research Institute of China United Assets Appraisal Group, and in combination with the provisions of the above guidelines, in the valuation process, the representative Shanghai Securities Composite Index was selected as the underlying index, the weekly and monthly basis was selected as the data frequency, the arithmetic average was used to calculate and annualized to the annual rate of return. Thereafter, the arithmetic average, geometric average and harmonic average are calculated respectively, and the expected market rate of return is determined after comprehensive analysis, i.e., r_m=9.17%.

Market risk premium = r_m-r_f=9.17%-2.29%=6.88%.

(3) Determination of capital structure

The enterprise provides technology services for petrochemical industry. After years' development, the enterprise has established its presence and its capital structure has been stable for recent years. As the management of the enterprise made the profit forecast based on its financing capability and stability maintenance of capital structure, the enterprise's stable capital structure as of the Valuation Benchmark Date was selected in this valuation to estimate the discount rate of future years, and both the equity interests and the value of debts are estimated based on their market value when calculating the capital structure.

(4) Determination of Beta coefficient

Based on the stocks of companies listed on the Shanghai and Shenzhen Stock Exchanges in the Shenwan petrochemical industry, the comparability of the appraised enterprise and comparable companies in terms of business type, corporate scale, profitability, growth, industrial competitiveness, enterprise development stage and other factors are taken into consideration. By selecting appropriate comparable companies, with the SSE Composite Index as the underlying index, with reference to the RoyalFlush iFinD Information Financial Terminal, estimated based on the market price as of the Valuation Benchmark Date, and with a calculation cycle of 250 weeks before the Valuation Benchmark Date, the estimated β_u of comparable companies' stocks without expected financial leverage risk coefficient has been arrived at and the expected market risk coefficient, β_e = 0.8407, of the equity capital of the appraised entity has been arrived at as calculated based on the enterprise's own capital structure.

(5) Determination of characteristic risk coefficient

The differences between the valuation target and listed companies in terms of corporate scale, enterprise development stage, core competitiveness, the reliance on large customers and key suppliers, corporate financing capabilities and financing costs as well as the soundness of profit forecast need to be taken into consideration when determining the discount rate, so as to determine the characteristic risk coefficient. The valuers, during the valuation process, have conducted comparable analysis on the enterprise and the comparable listed companies and the characteristic risk coefficient ε=2% has been arrived at.

(6) Determination of expected rate of return on debts r_d

The expected rate of return on debts represents the capital costs of debt financing of the enterprise. The capital structure adopted in this valuation is the capital structure of the enterprise. Following the principle of matching the debts cost and the capital structure, the expected rate of return on debts is determined with the weighted average capital costs of debts of the enterprise.

(7) Calculation of discount rate WACC

By substituting the above parameters into formula, the discount rate WACC=10.07% has been arrived at.

5. Determination of appraised value of operating assets

By substituting the resulting expected net cash flow into formula (3), the value of operating assets of the appraised enterprise of RMB307,617,700 has been arrived at.

6. Appraised value of long-term equity investments

There are a total of 3 long-term equity investments, being 1 subsidiary, 1 joint venture and 1 associate. Their original book value as of the Valuation Benchmark Date was RMB44,357,700 (before the completion of the swap of equity interests and capital reduction of Sinopec Tech) and RMB90,053,600 (after the simulated completion of the swap of equity interests and capital reduction of Sinopec Tech) and no provision for impairment was made.

For long-term equity investments, the valuers first verified the reasons for the formation, book value and actual conditions of long-term investments, and determined the authenticity and completeness of long-term investments by reviewing investment agreements, resolutions from shareholders' meetings, articles of association and relevant accounting records.

(1) The valuation was made to the overall assets of Shanghai KSD Bulk Solids Engineering Co., Ltd. as at the Valuation Benchmark Date to calculate and determine the appraised value by multiplying the appraised value of the net assets of Shanghai KSD Bulk Solids Engineering Co., Ltd. as at the Valuation Benchmark Date by the shareholding ratio in Sinopec Tech: appraised value of long-term equity investment = appraised value of net assets of the investee after overall appraisal × shareholding ratio.

(2) For the joint venture and the associate, analysis was made on the specific conditions of the invested enterprises. According to the provisions of the articles of association, voting rights shall be exercised in proportion to shareholdings at shareholders' meetings and if the number of directors is less than half of the seats assigned, there is no control. Therefore, Sinopec Tech is unable to decide on matters of the joint venture and the associate, and the appraised value was determined by multiplying the net assets as shown on the accounting statements as at the Valuation Benchmark Date by the equity ratio this time.

In this valuation, when determining the appraised value of long-term equity investments, neither premium and discount caused by such factors as controlling interest and minority interest, nor impact of the liquidity of the equity interest on the valuation conclusions was considered by the appraiser.

The appraised value of long-term equity investments in the appraised entity as at the benchmark date was:

I=RMB124,869,200 (before the completion of the swap of equity interests and capital reduction of Sinopec Tech) and RMB102,936,400 (after the simulated completion of the swap of equity interests and capital reduction of Sinopec Tech)

7. ***Determination of appraised value of non-operating or surplus assets (liabilities)***

It was verified that the value of certain assets (liabilities) existing in the books of the appraised enterprise as at the benchmark date was not taken into account in this estimate of the net cash flows and belonged to surplus or non-operating assets (liabilities) beyond the cash flows estimated in this valuation. In this valuation, the valuation has separately estimated the value of such assets (liabilities) on the basis of the audited financial statements and the appraised value of the surplus or non-operating assets (liabilities) of the appraised enterprise as at the benchmark date has been arrived at as:

$C=C_1+C_2$=RMB10,187,100 (before the completion of the swap of equity interests and capital reduction of Sinopec Tech) and RMB-4,283,700 (after the simulated completion of the swap of equity interests and capital reduction of Sinopec Tech)

Current assets: currency funds are bank deposits; accounts receivable are technology licensing project receivables from Sinopec Tech used for daily production and operation and treated as operating assets; prepayments are prepaid annual patent fees, bidding deposits, etc., of which bidding deposits are as surplus assets; other receivables are operating fund transactions, pending credit of foreign taxes and fees, social insurance advances on behalf of employees, etc., which are not used for daily production and operation and are treated as surplus assets.

Non-current assets: fixed assets are mainly vehicles and electronic equipment required for daily production and operation, all of which are operating assets. Right-of-use assets are leases of office premise, all of which are treated as operating assets; intangible assets are other intangible assets, all of which are treated as operating assets; and deferred income tax assets are bad debt provisions for accounts receivable, which are treated as surplus assets.

Current liabilities: accounts payable are sub-payments for technology licensing projects, rentals, various service fees, etc., which are treated as operating liabilities; contract liabilities are contract liabilities arising from the down payment of projects, which are treated as operating liabilities; employees' compensations payable are wages payable to employees, labor union funds and social insurance, and taxes payable are value-added tax, enterprise income tax and urban maintenance and construction tax payable, etc., which are treated as operating liabilities; other payables are incentives for the transformation of scientific and technological achievements of the entitled cadres, special funds for Min Enze Energy and Chemical Industry Award, special technical service funds for XLPE device, and special funds for the development of information system, etc., which are surplus liabilities; non-current liabilities maturing within one year are the minimum lease payments, which are treated as operating liabilities; and other current liabilities are the amount of output value-added tax to be recognized, which are treated as operating liabilities.

Non-current liabilities: lease liabilities are treated as operating liabilities; deferred income tax liabilities represent deferred income tax liabilities arising from fixed assets and are treated as surplus liabilities.

8. Valuation results by income approach

Before the completion of the swap of equity interests and capital reduction of Sinopec Tech, by substituting the arrived-at value (P=RMB307,617,700) of operating assets, the value (C=RMB10,187,100) of other surplus or non-operating assets existing as at the benchmark date and long-term equity investment (I=RMB124,869,200) into formula (2), the enterprise value (B=RMB442,674,000) of the valuation target has been arrived at. The enterprise had no interest-paying debt at the benchmark date and the value of the equity interest in the valuation target has been arrived at E=B-D=RMB442,674,000.

After the simulated completion of the swap of equity interests and capital reduction of Sinopec Tech, by substituting the arrived-at value (P=RMB307,617,700) of operating assets, the value (C=RMB-4,283,700) of other surplus or non-operating assets existing as at the benchmark date and long-term equity investment (I=RMB102,936,400) into formula (2), the enterprise value (B=RMB406,270,300) of the valuation target has been arrived at. The enterprise had no interest-paying debt at the benchmark date and the value of the equity interest in the valuation target has been arrived at E=B-D=RMB406,270,300.

VII. VALUATION CONCLUSION

Based on the judgment of the appraised entity and the management of the enterprise on the future development trend and business planning, and in accordance with relevant laws and regulations and asset appraisal standards, the value of the entire shareholders' equity interests of China Petrochemical Technology Co., Ltd. as at the Valuation Benchmark Date of 31 March 2024 has been appraised by adopting the asset-based approach and the income approach after implementing the appraisal procedures such as inventory and verification, on-site inspection, market investigation and enquiry, and assessment and estimation.

The asset-based approach reflects the fair market value of assets from the perspective of asset replacement. Taking into account the circumstances of this valuation, the appraised entity has provided detailed information relating to its assets and liabilities, the appraiser has also collected information from external sources to satisfy the requirements of the asset-based approach, and we have carried out a comprehensive inventory and valuation of the assets and liabilities of the appraised entity.

The income approach reflects the operating ability (profitability) of the assets, which can better reflect future operating income and reflect the market value of the enterprise from the aspect of profitability. China Petrochemical Technology Co., Ltd. is mainly engaged in technology licensing business. As a platform for SINOPEC's technology licensing, it is responsible for the licensing of patented technologies jointly developed by various research institutes, engineering and construction companies and other technology development units within the Group, and coordinating various technology development units to provide the owners with a full set of patented technological solutions and technological services for the investment and construction of project installations, and will be able to obtain relatively stable profits in the future with its professional technical team and stable upstream and downstream supply and sales channels. The valuation conclusion of the income approach not only takes into account the impact of the future business plan, market positioning and customer relationship of the abovementioned enterprise, but also reflects the overall value of the enterprise in a more comprehensive manner as compared with the asset-based approach. Therefore, the valuation conclusion of the income approach has been adopted as the final valuation conclusion of this valuation.

Through the above analysis, the arrived-at value of the entire shareholders' equity interests of China Petrochemical Technology Co., Ltd. at the point of time of the benchmark date was RMB442,674,000 (before the completion of the Swap of Equity Interests and capital reduction of Sinopec Tech) and RMB406,270,300 (after the simulated completion of the Swap of Equity Interests and capital reduction of Sinopec Tech).

Summary of the Asset Valuation Report on the Project of the Value of the Entire Shareholders' Equity Interests of Shanghai KSD Bulk Solids Engineering Co., Ltd. in relation to the Proposed Swap of Equity Interests by China Petrochemical Technology Co., Ltd. and the Explanatory Notes to the Asset Valuation on the Project of the Value of the Entire Shareholders' Equity Interests of Shanghai KSD Bulk Solids Engineering Co., Ltd. in relation to the Proposed Transfer of Equity Interests by 3 Companies including Sinopec Engineering Incorporation

China United Assets Appraisal Group Co., Ltd. has conducted a valuation on the market value of the entire shareholders' equity interests of Shanghai KSD Bulk Solids Engineering Co., Ltd. as at the Valuation Benchmark Date in relation to the economic activity of the Transactions.

The valuation target is the entire shareholders' equity interests of Shanghai KSD Bulk Solids Engineering Co., Ltd., and the valuation scope is all of the assets and liabilities of Shanghai KSD Bulk Solids Engineering Co., Ltd., including current assets and non-current assets as well as corresponding liabilities. As of the Valuation Benchmark Date, the total book assets of Shanghai KSD Bulk Solids Engineering Co., Ltd. as at 31 March 2024 as audited by Grant Thornton (Special General Partnership) were RMB167,025,000, its liabilities were RMB49,606,700, and its net assets were RMB117,418,300. The Valuation Benchmark Date is 31 March 2024 and the valuation report date is 18 June 2024.

The type of value under the valuation is market value.

This valuation is conducted on the premise of continued use and open market. Taking into account the actual conditions of the entrusted valuation target and comprehensively considering various influential factors, we conducted an overall valuation of Shanghai KSD Bulk Solids Engineering Co., Ltd. by adopting the asset-based approach and income approach respectively, and then reviewed and compared the valuation results. Given the applicable premise of the valuation approaches and the satisfaction of the valuation purpose, the valuation results under the income approach are selected as the final valuation conclusion.

Based on the judgement of equity holders and the management of the enterprise on the future development trend and business plans, the valuation conclusion is arrived at after conducting the valuation procedures, such as examination and verification, site inspection, market survey and confirmation, and determination of valuation.

I. VALUATION ASSUMPTIONS

In this valuation, the valuers followed the below valuation assumptions:

(I) General Assumptions

1. Transaction assumption

The transaction assumption is to assume that all assets to be appraised are in the process of transaction, and the appraiser conducts valuation in the simulated market based on the transaction conditions of the assets to be appraised. Transaction assumption is the most fundamental assumption for the implementation of asset valuation.

2. Open market assumption

The open market assumption is to assume that both parties to a transaction in respect of the assets traded in the market or to be traded in the market are on an equal footing with each other and have access to sufficient market information and time to make rational judgments on the function, and use of the assets and their transaction price. The open market assumption is based on the fact that the assets can be traded publicly in the market.

3. Enterprise going-concern assumption

The enterprise going-concern assumption is a valuation assumption made by considering the whole assets of the enterprise as the valuation target. That is, the enterprise, as a business entity, continues to operate in accordance with its business objectives in the external environment where it operates. The operator of the enterprise is responsible and competent for assuming responsibilities; the enterprise operates legally and is able to make appropriate profits to maintain its ability to continue as a going concern. All types of operating assets of the enterprise can be used continuously according to the current purpose and the manner, scale, frequency and environment of use, etc., or used on the basis of changes.

(II) Special Assumptions

1. This valuation assumes that the external economic environment remains unchanged and the current national macro-economy does not change significantly from that as at the Valuation Benchmark Date;

2. There will be no material change in the social and economic environment where the enterprise operates and the applicable policies on tax and tax rate, etc.;

3. The future operation and management team of the enterprise will be diligent and will continue the existing operation and management models;

4. The valuation is only based on the current operating capabilities as at the benchmark date without taking into account the potential expansion of operating capabilities caused by the management, operating strategies and additional investment in the future and the subsequent changes in the production and operations that may occur;

5. Each asset under this valuation is based on the actual stock on the Valuation Benchmark Date, and the current market price of the relevant asset is based on the domestic effective price on the Valuation Benchmark Date;

6. This valuation assumes that basic information and financial information provided by the principal and the appraised entity are true, accurate and complete;

7. The valuation scope is only based on the assessment declaration form provided by the principal and the appraised entity, without considering the contingent assets and contingent liabilities that may exist beyond the list provided by the principal and the appraised entity;

8. The value of each parameter measured in this valuation does not take into account the effect of inflation;

9. The appraised enterprise won the high-tech enterprise certification on 12 December 2023 with Certificate No. GR202331003225 for a valid period of three years, pursuant to which it is entitled to the tax preferential policy of an enterprise income tax rate of 15% during the validity period. It is assumed that in the future forecast period, the appraised target will maintain the high-tech enterprise certification and be entitled to an enterprise income tax rate of 15%.

When there is any change in the aforesaid conditions, the valuation results may usually become invalid.

II. VALUATION APPROACHES

(I) Selection of Valuation Approaches

The income approach in the valuation for enterprise value refers to the valuation approach that capitalizes or discounts expected income to determine the value of the valuation target. The professional valuer of assets shall consider the suitability of the income approach appropriately after taking into comprehensive consideration of the business nature, asset size, historical operations, future profit forecast, and adequacy of information collected for assessment.

The market approach in the valuation for enterprise value refers to the valuation approach that compares the valuation target with comparable listed enterprises or comparable transaction cases to determine the value of the valuation target. The professional valuer of assets shall consider the suitability of the market approach based on the adequacy and reliability of the comparable enterprises' operation and financial data obtained, and the number of comparable enterprises available.

The asset-based approach in the valuation for enterprise value refers to the valuation approach that, based on the balance sheet of the appraised entity as at the Valuation Benchmark Date, appraises the value of all identifiable assets and liabilities on– and off-balance sheet to determine the value of the valuation target, that is, the approach of calculating an enterprise's value by adding up the appraised value of assets which are the various elements that constitute the enterprise and deducting the appraised value of liabilities.

The asset-based approach reflects an enterprise's value from the perspective of enterprise construction and provides a basis for the operation, management and assessment of the enterprise after the realization of economic activity, therefore the asset-based approach is selected for this valuation.

As the appraised entity has the foundation and conditions to continue as a going concern, and future profit and risks are predictable and quantifiable, the income approach can be selected for this valuation.

Around the Valuation Benchmark Date, because the recent transaction cases involving enterprises of the same size are not available, and there are few comparable listed companies with the same size and business structure in the market, the market approach is not selected for this valuation.

In summary, the asset-based approach and income approach are adopted in this valuation.

(II) Income Approach

1. Assumptions for income forecast

(1) There will be no material changes to the relevant prevailing laws, regulations and policies, and in the macroeconomic situation of the PRC; there is no material change in political, economic and social environment of the regions where the parties to the Transactions are located.

(2) In respect of the actual status of the assets on the Valuation Benchmark Date, it is assumed that the enterprise operates as a going concern.

(3) It is assumed that the operator of the appraised entity is responsible and that the management of the company is capable of performing its duties.

(4) Unless otherwise specified, it is assumed that the company fully complies with all relevant laws and regulations.

(5) It is assumed that the business scope and mode of the company are consistent with the current direction on the basis of the existing management mode and management level.

(6) For this valuation, it is assumed that in the future forecast period, among other things, the main businesses, product structure, income and cost composition as well as sales strategies and cost control for the valuation target would maintain its status upon attaining production capacity and construction, and no significant change would occur.

(7) In the future forecast period, there will be no material changes in the various expenses of the valuation target on the existing basis, but will continue to maintain its changing trend in recent years and will change simultaneously along with the changes in business scale.

(8) Given the frequent changes on the enterprise's monetary fund or bank deposit during the production and operation process, and the idle funds have been considered as surplus assets, the interest income generated by the deposit and other uncertain profits or losses except for the interest-bearing liabilities is excluded from consideration in the valuation.

(9) There will be no material changes in respect of interest rates, exchange rates, tax basis and tax rates, and policy-based levies, etc.

(10) There will be no other force majeure factors and unpredictable factors which would have material and adverse effects on the enterprise.

(11) The appraised enterprise won the high-tech enterprise certification on 12 December 2023 with Certificate No. GR202331003225 for a valid period of three years, pursuant to which it is entitled to the tax preferential policy of an enterprise income tax rate of 15% during the validity period. It is assumed that in the future forecast period, the appraised target will maintain the high-tech enterprise certification and be entitled to an enterprise income tax rate of 15%.

The valuation agency will not be liable to derive a valuation conclusion due to changes in assumptions when there is a material change in the economic environment.

2. Income approach valuation model

(1) Valuation methodology

According to the due diligence findings and the asset composition and characteristics of main business of the appraised entity, the valuation estimates the equity capital value of the appraised entity based on its single financial statements. The basic valuation methodologies for this valuation are as follows:

1) For the assets and main business included in the scope of the statements, the expected income (net cash flow) shall be forecasted according to the change trend of historical operations and business types, and discounted to arrive at the value of the operating assets;

2) For current assets (liabilities) such as dividends receivable (payable) and non-current assets (liabilities) such as obsolete or idle equipment that exist as at the benchmark date, which are included in the scope of the statements but have not been taken into account in the forecast of expected income (net cash flow), they shall be defined as surplus or non-operating assets (liabilities) existed as at the benchmark date and their values shall be estimated separately;

3) For long-term equity investments included in the scope of the statements but have not been taken into account in the estimation of expected income (net cash flow), their values are estimated separately;

4) The enterprise value of the appraised entity would be arrived at by adding up the values of the above assets and liabilities, and the value of the equity capital (entire shareholders' equity interests) in the appraised entity would be arrived at after deducting the value of interest-bearing debts as at the benchmark date.

When determining the value of the entire shareholders' equity interests, the appraiser does not take into account the premium or discount caused by such factors as controlling interests and minority interests, nor impact of the liquidity of the equity interests on the valuation results.

(2) Valuation model

1) Basic model

The basic model for this valuation is:

$$E=B-D \qquad (1)$$

Where:

E: Value of the entire shareholders' equity interests (net assets) of the appraised entity;

B: Enterprise value of the appraised entity;

D: Value of the interest-bearing debts of the appraised entity;

$$B=P+C \qquad (2)$$

Where:

P: Value of the operating assets of the appraised entity;

C: Value of surplus or non-operating assets (liabilities) existing at the benchmark date of the appraised entity;

$$P=\sum_{i=1}^{n}\frac{R_i}{(1+r)^i}+\frac{R_{n+1}}{r(1+r)^n} \qquad (3)$$

Where:

R_i: Expected income (free cash flow) of the appraised entity in year i in the future;

r: Discount rate;

n: Future operating period of the appraised entity;

$$C=C_1+C_2 \qquad (4)$$

C_1: Value of current surplus or non-operating assets (liabilities) as at the benchmark date;

C_2: Value of non-current surplus or non-operating assets (liabilities) as at the benchmark date.

2) Income indicators

In this valuation, the free cash flow of enterprise is used as an income indicator for the operating assets of the appraised entity. Its basic definition is as follows:

R = profit before interest and tax × (1-t) + depreciation and amortization – additional capital (5)

The appraised entity's free cash flow in the future operation period is estimated according to its operation history, market development in the future and etc. The free cash flow in the future operation period is discounted and added up to arrive at the value of the enterprise's operating assets.

3) Discount rate

In this valuation, the weighted average cost of capital (WACC) model is used to determine the discount rate r

$$r=r_d \times w_d + r_e \times w_e \qquad (6)$$

Where:

W_d: Debt ratio of the appraised entity;

$$w_d = \frac{D}{(E+D)} \qquad (7)$$

W_e: Equity ratio of the appraised entity;

$$w_e = \frac{E}{(E+D)} \qquad (8)$$

r_d: Interest rate of interest-bearing debts after income tax;

r_e: Cost of equity capital. In this valuation, the cost of equity capital r_e is determined by the capital asset pricing model (CAPM);

$$r_e=r_f+\beta_e \times (r_m-r_f)+\varepsilon \qquad (9)$$

Where:

r_f: Risk-free return rate;

r_m: Expected market rate of return;

ε: Specific risk-adjusted factor for the appraised entity;

β_e: Expected market risk factor of the equity capital of the appraised entity;

$$\beta_e = \beta_u \times (1+(1\text{-}t)\times\frac{D}{E}) \qquad (10)$$

β_u: Expected unlevered market risk factor of comparable companies;

$$\beta_u = \frac{\beta_t}{1+(1\text{-}t)\,\frac{D_i}{E_i}} \qquad (11)$$

β_t: Expected average market risk factor of stocks (assets) of comparable companies;

$$\beta_t = 34\%K + 66\%\beta_x \qquad (12)$$

Where:

K: The average risk value of the stock market in a certain period, for which it normally assumes that K = 1;

β_x: Historical market average risk factor of stocks (assets) of comparable companies;

D_i, E_i: Interest-bearing debts and equity capital of comparable companies, respectively

3. *Determination of the income period*

According to the articles of association of the appraised entity, the enterprise has a long operating term and the appraised entity was under normal operation as at the Valuation Benchmark Date. There are no limitations on the useful life of the core assets that affect the enterprise's operation on a going concern basis and on the production 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, in this valuation, it is assumed that the appraised entity operates on a going concern basis after the Valuation Benchmark Date and the corresponding income period is indefinite.

4. *Determination of future income*

(1) *Estimation of operating income and operating costs*

The income of the main business of the enterprise is income from powder conveying engineering.

In this valuation, we have investigated the world-wide main engineering model, engineering price and other circumstances in the above powder conveying engineering, and discussed and analyzed with the management of the appraised entity based on information such as historical prices, supply-demand relations, and industry development trends.

The main business of KSD is provision of professional services for pneumatic conveying systems. Large-scale application of pneumatic conveying systems has been realized in petrochemical, chemical and other industries. With the advancement of intelligent and automation technologies in the manufacturing industry, pneumatic conveying systems have been extensively applied in food, pharmaceutical and other industries, and have gradually been promoted and applied in emerging industries and sectors of national economy such as silicon materials, new energy and new materials. In the future, the application fields of pneumatic conveying systems will continue to expand. Therefore, the overall market of pneumatic conveying industry has a large space for development, and it is expected that the market share will be increasingly focused on leading enterprises in the future.

KSD is one of the leading pneumatic conveying design and overall system integrators in the PRC. According to KSD's forecast of future operation and development, operating income is forecasted based on a certain growth rate.

According to the historical production costs of the appraised entity, costs of the appraised entity include project costs for outsourced raw materials and others, depreciation, etc. Project costs for outsourced raw materials and others are determined based on the average gross profit margin in the historical years.

(2) *Forecast of taxes and surcharges*

The taxes and surcharges of the appraised entity include urban maintenance and construction tax, education surcharge and local education surcharge, all of which are calculated based on the amount of value-added tax paid, and the rates of tax (surcharge) are 7%, 3% and 2%, respectively.

The powder conveying engineering business in which the appraised entity is engaged need to calculate output value-added tax at a rate of 13%; costs and expenses available for deduction of input tax at a rate of 13% include purchased equipment, etc. Stamp duty is determined based on the percentage of stamp duty to operating income in the historical years. Vehicle and vessel tax is determined based on the average incurred amounts in the historical years.

Value-added tax paid = output tax – input tax

(3) *Forecast of expenses for the period*

1) Forecast of sales expenses

Sales expenses mainly refer to wages, depreciation of fixed assets, travel expenses, etc.

Wages are forecasted based on a growth rate of 2%. Travel expenses and business promotion fees are forecasted based on historically incurred amounts and with reference to the range of the income growth.

2) Forecast of administrative expenses

Administrative expenses of the enterprise mainly refer to wages, consulting fees, service fees, etc.

Wages are forecasted based on a growth rate of 2%. Depreciation and amortization are forecasted based on the enterprise's original value of fixed assets (intangible assets) and depreciation (amortization) provision standards. Related rents are forecasted based on rent payment standards. Other expenses such as consulting fees and shared service fees are forecasted based on historically incurred amounts and with reference to the range of the income growth.

3) Forecast of R&D expenses

R&D expenses of the enterprise mainly refer to employee compensations, technology service fees, depreciation expenses, etc.

Wages are forecasted based on a growth rate of 2%. Depreciation and amortization are forecasted based on the enterprise's original value of fixed assets (intangible assets) and depreciation (amortization) provision standards. Technology service fees, travel expenses, office expenses and other expenses are forecasted based on historically incurred amounts and with reference to the range of the income growth.

4) Forecast of financial expenses

The financial expenses of the enterprise mainly refer to handling fees. The handling fees are considered to increase slightly based on historically incurred amounts.

(4) Calculation of income tax

KSD won the high-tech enterprise certification on 12 December 2023 for a valid period of three years, pursuant to which it is entitled to the tax preferential policy of an enterprise income tax rate of 15% during the validity period. It is assumed that in the future forecast period, KSD will maintain the high-tech enterprise certification and be entitled to an enterprise income tax rate of 15%.

(5) Forecast of depreciation and amortization

The assets of the appraised entity subject to provision of depreciation are fixed assets, mainly including machinery equipment, electronic equipment and vehicles. Fixed assets are valued at the actual cost at the time of acquisition. In this valuation, the depreciation amount for future operating periods was estimated in accordance with the depreciation policy for fixed assets implemented by the enterprise, and based on the original book value of fixed assets as of the benchmark date, expected useful life and weighted depreciation rate, etc.

(6) Forecast of additional capital

Additional capital refers to the working capital required to be increased and long-term capital input exceeding one year without changing the current operating and production conditions of the enterprise, such as the capital investment required for expansion of production capacity (fixed assets or other non-current assets purchased), as well as the additional working capital required and asset replacement necessary for continued operation.

Therefore, the additional capital as defined in this report, is:

Additional capital = asset replacement + increase in working capital + capital expenditure

1) Estimation of asset replacement investment

Based on the premise and foundation of the earnings forecast, only replacement investment expense necessary for maintaining the production and operation after capacity expansion is required to be met for each of future years. Depreciation is provided for fixed assets according to the accounting policy standard implemented by the enterprise, and replacement is forecasted by way of replacement equivalent to depreciation during the perpetual period.

2) Estimation of increase in working capital

The increase in working capital refers to the operating capital that the enterprise requires to be increased, without changing the current conditions of its main business, so as to maintain normal operations, which are additional funds needed to maintain the enterprise's ability to operate on a going concern basis, such as cash required to maintain for normal operations, the purchase of product inventory, advance payments for goods (receivables) on behalf of customers and other basic capital required, as well as payables. The increase in working capital refers to the cash occupied by acquiring commercial credit of others due to changes in the enterprise's operating activities, as well as the cash and inventory required to maintain normal operations. Meanwhile, in economic activities, providing commercial credit can correspondingly reduce the immediate payment of cash. Usually, the accounting contents of other receivables and other payables are substantially related party transactions or non-operating transactions. Taxation and payroll payable are mainly incurred during the operation with relatively short turnover days, short default time and small amount.

In principal, estimating the increase in working capital only needs to consider the main factors such as cash (minimum cash holdings), inventory, receivables and payables required to maintain for normal operations.

Based on the investigation on the operating conditions of the valuation target and by the statistical analysis of the assets and profit or loss, income and costs and expenses of historical operations as of the benchmark date, as well as the estimation results of the income and costs for each year during future operating periods, and according to the above definitions, the operating cash (minimum cash holdings), inventory, receivables as well as payables, and its increase in working capital for each year during future operating periods can be arrived at.

3) Estimation of capital expenditure

In this valuation, there was no capital expenditure.

(7) Forecast of non-operating income and expenses

When making the forecast, the profit or loss resulting from uncertain non-operating income and expenses, subsidy income and other non-recurring operations, were not taken into consideration. The enterprise had no certain non-operating income and expenses.

(8) Forecast of cash flow

The forecast of future earnings in this valuation was mainly, based on market research and analysis of the industry where the enterprise operates, a professional judgment made pursuant to the comprehensive situation including the operating conditions of relevant comparable enterprises, market demands and future development of the industry.

5. Determination of discount rate

(1) Determination of risk-free interest rate

With reference to website of China Appraisal Society, the yield of the treasury bonds provided by China Central Depository & Clearing Co., Ltd. (CCDC) published on such website is as follows:

Table 2. Yield of the treasury bonds of China

Date/maturity	3 months	6 months	1 year	2 years	3 years	5 years	7 years	10 years	30 years
2024-03-29	1.64%	1.66%	1.72%	1.90%	2.03%	2.20%	2.32%	2.29%	2.46%

This valuation was based on the assumption of going concern, and the yield period of the entrusted valuation target is indefinite. According to the requirements of the Guidelines for Assets Appraisal Experts No. 12 – Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach (ZPX [2020] No. 38), the yield to maturity of the treasury bonds with a remaining maturity of 10 years or more can be used as the risk-free interest rate. The yield of 10-year treasury bonds is used as the risk-free interest rate in this valuation, i.e., $r_f = 2.29\%$.

(2) Determination of market risk premium

Market risk premium refers to the expected excess return required by investors for equity investment with the same average risk as the overall market, that is, the risk compensation that exceeds the risk-free interest rate. The market risk premium can usually be measured by using the historical risk premium data of the market. In this valuation, the long-term average rate of return of China's A-share market index was taken as the expected market rate of return r_m, and the part of the expected market rate of return that exceeds the risk-free interest rate was taken as the market risk premium.

According to the requirements of the Guidelines for Assets Appraisal Experts No. 12 – Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach (ZPX [2020] No. 38), when calculating the market risk premium by using China's securities market index, representative indexes shall be selected in general, such as the Shanghai and Shenzhen 300 Index, Shanghai Securities Composite Index, etc.; when calculating the excess rate of return of the index in a historical period, the time span can be more than 10 years, the data frequency can be weekly or monthly, and the calculation method can be arithmetic average or geometric average.

According to the follow-up study on China's A-share market conducted by the Research Institute of China United Assets Appraisal Group, and in combination with the provisions of the above guidelines, in the valuation process, the representative Shanghai Securities Composite Index was selected as the underlying index, the weekly and monthly basis was selected as the data frequency, the arithmetic average was used to calculate and annualized to the annual rate of return. Thereafter, the arithmetic average, geometric average and harmonic average are calculated respectively, and the expected market rate of return is determined after comprehensive analysis, i.e., r_m=9.17%.

Market risk premium = r_m-r_f=9.17%-2.29%=6.88%.

(3) *Determination of capital structure*

The enterprise falls into the petrochemical industry. After years' development, the enterprise has established its presence and its capital structure has been stable for recent years. As the management of the enterprise made the profit forecast based on its financing capability and stability maintenance of capital structure, the enterprise's stable capital structure as of the Valuation Benchmark Date was selected in this valuation to estimate the discount rate of future years, and both the value of equity interests and debts are estimated based on their market value when calculating the capital structure.

(4) Determination of Beta coefficient

Based on the stocks of companies listed on the Shanghai and Shenzhen Stock Exchanges in the Shenwan petrochemical industry, the comparability of the appraised enterprise and comparable companies in terms of business type, corporate scale, profitability, growth, industrial competitiveness, enterprise development stage and other factors are taken into consideration. By selecting appropriate comparable companies, with the SSE Composite Index as the underlying index, with reference to the RoyalFlush iFinD Information Financial Terminal, estimated based on the market price as of the Valuation Benchmark Date, and with a calculation cycle of 250 weeks before the Valuation Benchmark Date, the estimated β_u of comparable companies' stocks without expected financial leverage risk coefficient has been arrived at and the expected market risk coefficient, $\beta_e = 0.8407$, of the equity capital of the appraised entity has been arrived at as calculated based on the enterprise's own capital structure.

(5) Determination of characteristic risk coefficient

The differences between the valuation target and listed companies in terms of corporate scale, enterprise development stage, core competitiveness, the reliance on large customers and key suppliers, corporate financing capabilities and financing costs as well as the soundness of profit forecast etc. need to be taken into consideration when determining the discount rate, so as to determine the characteristic risk coefficient. The valuers, during the valuation process, have conducted comparable analysis on the enterprise and the comparable listed companies and the characteristic risk coefficient ε=2.00% has been arrived at.

(6) Determination of expected rate of return on debts r_d

The expected rate of return on debts represents the capital costs of debt financing of the enterprise. The capital structure adopted in this valuation is the capital structure of the enterprise. Following the principle of matching the debts cost and the capital structure, the expected rate of return on debts is determined with the weighted average capital costs of debts of the enterprise.

(7) Calculation of discount rate WACC

By substituting the above parameters into formula, the discount rate r (WACC)=10.07% has been arrived at.

6. Determination of appraised value of operating assets

By substituting the resulting expected net cash flow into formula (3), the value of operating assets of the appraised enterprise of RMB149,723,200 has been arrived at.

7. Appraised value of long-term equity investments

The appraised enterprise had no long-term equity investments.

8. Determination of appraised value of non-operating or surplus assets (liabilities)

It was verified that the value of certain assets (liabilities) existing in the books of the appraised enterprise as at the benchmark date was not taken into account in this estimate of the net cash flows and belonged to surplus or non-operating assets (liabilities) beyond the cash flows estimated in this valuation. In this valuation, the valuation has separately estimated the value of such assets (liabilities) on the basis of the audited financial statements and the appraised value of the surplus or non-operating assets (liabilities) of the appraised enterprise as at the benchmark date has been arrived at as:

$C=C_1+C_2=$RMB-11,000

Current assets: currency funds are bank deposits; accounts receivable are retention receivables, which are treated as operating assets; prepayments are prepayments for materials, equipment, etc., which are treated as operating assets; other receivables are withholdings for employees, which are not used for daily production and operation and are treated as surplus assets; inventories are repair charges for the later stage of projects and other costs, which are treated as operating assets; and contract assets are project costs carried forward, which are treated as operating assets.

Non-current assets: fixed assets are mainly vehicles and electronic equipment required for daily production and operation, all of which are operating assets. Right-of-use assets are leases of office premise, all of which are treated as operating assets; intangible assets are other intangible assets, all of which are treated as operating assets; and deferred income tax assets that relate to lease liabilities and accounts receivable, which are treated as surplus assets.

Current liabilities: accounts payable are payables for materials, pipe fittings, etc., which are treated as operating liabilities; contract liabilities are advances received from equipment, which are treated as operating liabilities; taxes payable are value-added tax, enterprise income tax payable, etc., which are treated as operating liabilities; other payables are labor union funds, withheld insurance money, etc., which are treated as operating liabilities; and other current liabilities are the amount of output value-added tax to be recognized, which are treated as operating liabilities.

Non-current liabilities: deferred income tax liabilities that relate to fixed assets and right-of-use assets, which are treated as surplus liabilities.

9. Valuation results by income approach

By substituting the arrived-at value (P=RMB149,723,200) of operating assets, the value (C=RMB-11,000) of other surplus or non-operating assets existing as at the benchmark date and nil long-term equity investment into formula (2), the enterprise value (B=RMB149,712,200) of the valuation target has been arrived at.

The enterprise had no interest-paying debt at the benchmark date and the value of the equity interest in the valuation target has been arrived at
E=B-D=RMB149,712,200

VII. VALUATION CONCLUSION

Based on the judgment of the appraised entity and the management of the enterprise on the future development trend and business planning, and in accordance with relevant laws and regulations and asset appraisal standards, the value of the entire shareholders' equity interests of Shanghai KSD Bulk Solids Engineering Co., Ltd. as at the Valuation Benchmark Date of 31 March 2024 has been appraised by adopting the asset-based approach and the income approach after implementing the appraisal procedures such as inventory and verification, on-site inspection, market investigation and enquiry, and assessment and estimation.

The asset-based approach reflects the fair market value of assets from the perspective of asset replacement. Taking into account the circumstances of this valuation, the appraised entity has provided detailed information relating to its assets and liabilities, the appraiser has also collected information from external sources to satisfy the requirements of the asset-based approach, and we have carried out a comprehensive inventory and valuation of the assets and liabilities of the appraised entity. The income approach reflects the operating ability (profitability) of the assets, which can reflect the market value of the enterprise from the aspect of profitability. Shanghai KSD Bulk Solids Engineering Co., Ltd. is an enterprise whose main business is powder conveying engineering. Through the experience accumulated in its operation over the years, the company has developed a sound customer relationship and credibility in the industry. The valuation conclusion of the income approach not only takes into account the impact of the above customer relationship, but also better reflects future operating income and reflects the overall value of the company in a more comprehensive manner as compared with the asset-based approach. Therefore, the valuation conclusion of the income approach has been adopted as the final valuation conclusion of this valuation.

Through the above analysis, the arrived-at value of the entire shareholders' equity interests of Shanghai KSD Bulk Solids Engineering Co., Ltd. at the point of time of the benchmark date was RMB149,712,200.

Appendix II – Letters from Grant Thornton and the Board

The following is the text of a letter, prepared for the sole purpose of inclusion in this announcement, from the reporting accountants, Grant Thornton (Special General Partnership) in relation to the valuation contained in Appendix I to this announcement.

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REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF SHANGHAI KSD BULK SOLIDS ENGINEERING CO., LTD.

To the board of directors of SINOPEC Engineering (Group) Co., Ltd.

We have been appointed to complete the assurance work and report on the calculation of discounted future estimated cash flows on which the business valuation report (the "**Valuation**") issued by China United Assets Appraisal Group Co., Ltd. dated 18 June 2024 in relation to the fair value of the interest in Shanghai KSD Bulk Solids Engineering Co., Ltd. (the "**Target Company**") was based. The Valuation is set out in Appendix I to the announcement published by SINOPEC Engineering (Group) Co., Ltd. (the "**Company**") in relation to the acquisition of interest in the Target Company (the "**Announcement**"). Such Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' responsibility for the discounted future estimated cash flows

The directors of the Company (the "**Directors**") accept responsibility for the basis of preparation and assumptions (the "**Assumptions**") used in the discounted future estimated cash flows as determined and approved by the Directors, summary information of which is set out in the Announcement. This responsibility includes the implementation of appropriate procedures for the preparation of the discounted future estimated cash flows for the purpose of the Valuation and the application of appropriate basis of preparation and reasonable estimates in the circumstances.

Our independence and quality management

We comply with the requirements on independence and other professional ethics set out in the Code of Ethics for Professional Accountants issued by the Chinese Institute of Certified Public Accountants, which are based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional conduct.

Our CPA firm has adopted CPA Firm Quality Management Standard No. 5101 "Practice Quality Management" issued by the Chinese Institute of Certified Public Accountants, which requires the firm to design, implement and operate a sound quality management system, including policies or procedures for compliance with ethical requirements, provisions of the professional standards, and applicable legal and regulatory requirements.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the accuracy of the calculations of the discounted future estimated cash flows on which the Valuation has been based and to report our opinion solely to you, as a body, and for no other purpose, in accordance with Rule 14.60A of the Listing Rules. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with China Statement of Standard on Other Assurance Engagements for Certified Public Accountants No. 3101 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Chinese Institute of Certified Public Accountants. The standard requires us to comply with ethical requirements and to plan and perform the assurance engagement to obtain reasonable assurance about whether the calculation of the discounted future estimated cash flows is consistent with the Assumptions. Our work does not constitute any valuation of the acquisition.

No accounting policies of the Company have been adopted in the preparation of the Valuation as it relates to discounted future estimated cash flows. The Assumptions include assumptions about future events and management actions that are hypothetical in nature, which may or may not occur and therefore cannot be recognised and verified in the same way as past performance. Even if the anticipated events and actions do occur, actual results may well differ from the Valuation or even be materially different. Accordingly, we have not reviewed, considered or performed any work on the reasonableness and validity of the Assumptions and do not express an opinion thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows have been properly compiled, in all material respects, for the purposes of this calculation on the basis of the Assumptions.

Grant Thornton (Special General Partnership)

Beijing, 28 June 2024

THE LETTER FROM THE BOARD

To whom it may concern,

Re: Profit Forecast – Confirmation letter under the requirements of Rule 14.60A(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")

Reference is made to the valuation (the "**Valuation**") using the income approach of the total equity interests in Shanghai KSD Bulk Solids Engineering Co., Ltd. (上海金申德粉體工程有限公司) as at 31 March 2024 by China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司) (the "**Independent Valuer**").

Since the discounted cash flow method under the income approach was adopted by the Independent Valuer in the Valuation, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. Accordingly, the requirements under Rule 14.60A of the Listing Rules apply.

The board of directors of SINOPEC Engineering (Group) Co., Ltd. (the "**Board**") has reviewed the valuation basis and assumptions in the Valuation report, for which the Independent Valuer is responsible, and discussed the same with the Independent Valuer. The Board has considered the report issued by Grant Thornton (Special General Partnership) (致同會計師事務所(特殊普通合夥)) in relation to the accuracy of the calculations of the profit forecast in the Valuation.

Based on the above and pursuant to the requirements of Rule 14.60A(3) of the Listing Rules, the Board confirmed that the profit forecast used in the Valuation has been made after due and careful enquiry.

28 June 2024

By Order of the Board
SINOPEC ENGINEERING (GROUP) CO., LTD.