

11 December 2024

*To the Independent Board Committee and the Independent Shareholders of  
Datang Environment Industry Group Co., Ltd.*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTION –  
(1) RENEWED INTEGRATED PRODUCT AND  
SERVICE FRAMEWORK AGREEMENT;  
CONTINUING CONNECTED TRANSACTIONS AND  
MAJOR TRANSACTIONS –  
(2) RENEWED FINANCIAL SERVICES FRAMEWORK AGREEMENT; AND  
(3) DEPOSIT SERVICES UNDER THE RENEWED FINANCIAL  
SERVICES AGREEMENT**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of Datan Environment Industry Group Co., Ltd. (the “**Company**” and its subsidiaries, collectively the “**Group**”) in respect of the Renewed Integrated Product and Service Framework Agreement, the Renewed Financial Services Framework Agreement and the deposit services under the Renewed Financial Services Agreement (“**Deposit Services**”), details of which are set out in the Letter from the Board (the “**Letter from the Board**”) in the Company’s circular dated 11 December 2024 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As at the Latest Practicable Date, China Datan, which is the controlling shareholder of the Company, directly held approximately 78.96% of the issued share capital of the Company. Pursuant to Chapter 14A of the Listing Rules, China Datan is therefore a connected person of the Company. Datan Capital is a wholly-owned subsidiary of China Datan. Pursuant to Chapter 14A of the Listing Rules, Datan Capital is therefore a connected person of the Company. Datan Finance is a subsidiary of China Datan, and is therefore a connected person of the Company. Accordingly, the Renewed Integrated Product and Service

Framework Agreement, the Renewed Financial Services Framework Agreement and the Deposit Services under the Renewed Financial Services Agreement and the respective transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transactions calculated with reference to the relevant proposed annual caps under the Renewed Integrated Product and Service Framework Agreement are more than 5%, the Renewed Integrated Product and Service Framework Agreement, the transactions contemplated thereunder and the proposed annual caps are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transactions (including financial leasing service and commercial factoring service) calculated with reference to the relevant proposed annual caps under the Renewed Financial Services Framework Agreement are more than 5%, the Renewed Financial Services Framework Agreement, the transactions contemplated thereunder and the proposed annual caps are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transactions (including commercial factoring service, financial leasing service and entrusted loan service) calculated with reference to the relevant proposed annual caps under the Renewed Financial Services Framework Agreement exceed 25% but are less than 100%, the transactions contemplated under the Renewed Financial Services Framework Agreement constitute a major transaction of the Company under Chapter 14 of the Listing Rules.

As each of the percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) applicable to the Deposit Services is more than 5%, the Deposit Services are subject to the reporting, annual review, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will disclose relevant details in the annual report and accounts of the Company to be published in the next year pursuant to the relevant requirements under Rule 14A.71 of the Listing Rules. Further, given that one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the Deposit Services under the Renewed Financial Services Agreement calculated with reference to the relevant proposed annual caps under the Renewed Financial Services Agreement is more than 100%, the Deposit Services under the Renewed Financial Services Agreement is not a very substantial acquisition but constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

The 2024 Third EGM will be convened to consider and, if thought fit, to approve, inter alia, (i) the continuing connected transactions and proposed annual caps contemplated under the Renewed Integrated Product and Service Framework Agreement; (ii) the continuing connected transactions and proposed annual caps contemplated under the Renewed Financial Services Framework Agreement; and (iii) the continuing connected transactions and proposed annual caps contemplated under the Deposit Services of the Renewed Financial Services Agreement (the “**Continuing Connected Transactions**”).

Mr. Xu Chun, Mr. Pang Xiaojin, Mr. Xia Huaixiang and Mr. Chu Hongbo, being the Directors holding positions with China Datang or its subsidiaries, have abstained from voting at the relevant Board meeting approving the Renewed Integrated Product and Service Framework Agreement, the Renewed Financial Services Framework Agreement, the Renewed Financial Services Agreement and the transactions contemplated thereunder. Save as mentioned above, all Directors have confirmed that they have no

material interests in the Renewed Integrated Product and Service Framework Agreement, the Renewed Financial Services Framework Agreement, the Renewed Financial Services Agreement and the transactions thereof.

In view of the interests of China Datang, which directly held 2,319,813,342 Domestic Shares (representing approximately 78.17% of the total issued share capital of the Company) and indirectly held 23,432,458 Domestic Shares (representing approximately 0.79% of the total issued share capital of the Company) through Datang Capital as at the Latest Practicable Date and thus is a connected person of the Company, in the Continuing Connected Transactions, China Datang and Datang Capital (being an associate of China Datang) are required to abstain from voting on the resolutions to be proposed at the 2024 Third EGM to approve the Continuing Connected Transactions and the transactions contemplated thereunder (including the respective proposed annual caps). As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors, save as disclosed in the Circular, no other Shareholders will be required to abstain from voting in respect of the relevant resolutions.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Mao Zhuanjian, Mr. Suen Chun Hung, Benjamin and Ms. Hu Yunqing, has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions. Trinity Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions.

As at the Latest Practicable Date, we did not have any relationships or interests with the Company, the Group, Datang Capital, Datang Finance or China Datang Group that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between us and the Company, the Group, Datang Capital, Datang Finance or China Datang Group, except acting as independent financial adviser for Datang International Power Generation Co., Ltd. (“**Datang Power**”) in connection with the continuing connected transaction in relation to the 2023 factoring business cooperation agreement (details of which were set out in the circular of Datang Power dated 19 April 2023) and the continuing connected transactions in relation to the 2024 comprehensive financial services cooperation agreement (details of which were set out in the circular of Datang Power dated 29 May 2024), and acting as independent financial adviser for China Datang Corporation Renewable Power Co., Limited (“**Datang Renewable**”) in connection with the continuing connected transactions in relation to the renewal of financial services agreement and renewal of finance lease business framework agreement (details of which were set out in the circular of Datang Renewable dated 30 November 2023) and the connected transaction in relation to the capital increase agreement (details of which were set out in the circular of Datang Renewable dated 17 April 2024). Apart from normal professional fees paid or payable to us in connection with this appointment, and the appointments as disclosed above, no arrangements exist whereby we have received or will receive any fees or benefits from the Company, the Group, Datang Capital, Datang Finance or China Datang Group. Accordingly, we are qualified to give independent advice in respect of the Continuing Connected Transactions pursuant to Rule 13.84 of the Listing Rules.

## **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular, and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company (and for which they are solely and wholly responsible), were true and accurate at the time when they were made and continue to be true as at the Latest Practicable Date and should there be any material changes to our opinion after the despatch of the Circular and up to the date of the 2024 Third EGM, Shareholders of the Company would be notified as soon as practicable.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have not conducted any independent in-depth investigation into the business and affairs of the Group or any parties involved in the Continuing Connected Transactions. We have independently reviewed, inter alia, the 2023 annual report and 2024 interim report of the Company, the historical transaction amounts, the Letter from the Board and samples of contracts of the Company relating to the Existing Integrated Product and Service Framework Agreement, the Existing Financial Services Framework Agreement and the Existing Financial Services Agreement.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Renewed Integrated Product and Service Framework Agreement, the Renewed Financial Services Framework Agreement and the Deposit Services under the Renewed Financial Services Agreement and the respective annual caps applicable thereto and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes other than our role as the Independent Financial Adviser, without our prior written consent.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

### **I. INFORMATION OF THE COMPANY, CHINA DATANG, DATANG CAPITAL AND DATANG FINANCE**

#### **Information on the Company**

The Company is a non-wholly owned subsidiary of China Datang, and is the sole platform for the development of environmental protection and energy conservation business under China Datang Group, one of the five major state wholly-owned power generation groups in the PRC.

The principal business of the Group includes environmental protection facility concession operation, denitrification catalysts, environmental protection facilities engineering, water treatment business, energy conservation business and renewable energy business.

#### **Information on China Datang**

China Datang is a state-owned enterprise established in the PRC in April 2003 and is the controlling shareholder of the Company and Datang Finance. China Datang is primarily engaged in the development, investment, construction, operation and management of power energy; organisation of power (thermal) production and sales; manufacture, maintenance and commissioning of electric power equipment; power technology development and consultation; contracting and consulting of electric power engineering and environmental protection projects; development of renewable power; and self-operating and being an agent for import and export of any kind of goods and technology save for those where the import or export of the goods and technology are restricted or prohibited by national laws and regulations.

#### **Information on Datang Capital**

Datang Capital was established in the PRC on 30 November 2011, and is a subsidiary of China Datang, the controlling shareholder of the Company. The main business scope is: investment management, asset management and investment consultation.

#### **Information on Datang Finance**

Datang Finance was officially established in the PRC as a non-bank financial institution in May 2005, and is a non-wholly owned subsidiary of China Datang. It is regulated by the NAFR and in compliance with laws and regulations concerning the non-bank financial institutions. Its primary business scopes are as follows: providing consultancy and agency service in relation to financial advisory, credit, visa and related services; assisting intra-group members in realising receipt and payment of transaction amount; providing approved insurance agency services; serving as guarantees for loans of intra-group members; handling entrusted loan and entrusted investment between intra-group members; handling bill acceptances and discounting for intra-group members; conducting

internal transfer settlement between intra-group members and designing of corresponding settlement and liquidation plan; absorbing deposits from intra-group members; dealing with loan and financial leasing for intra-group members; dealing with inter-bank offered credit; issuing finance company bonds upon approval, underwrite corporate bonds of intra-group members, equity investments in financial institutions; and investment in negotiable securities, etc.

## **II. RENEWED INTEGRATED PRODUCT AND SERVICE FRAMEWORK AGREEMENT**

As the Existing Integrated Product and Service Framework Agreement will expire on 31 December 2024 and the Company will continue to conduct the transactions under the Existing Integrated Product and Service Framework Agreement from 2025 to 2027, therefore, the Company entered into the Renewed Integrated Product and Service Framework Agreement with China Datang on 11 December 2024 in order to renew the relevant continuing connected transactions. Both parties agreed that such agreement shall be effective from 1 January 2025 and expiring on 31 December 2027.

According to the Letter from the Board, details of the Renewed Integrated Product and Service Framework Agreement are set out as follows:

**Date:** 11 December 2024

**Parties:** (1) China Datang; and  
(2) the Company

**Term:** Effective from 1 January 2025 to 31 December 2027, and could be extended or renewed for three years as agreed by both parties within three months prior to expiry and subject to compliance with the relevant laws, regulations, regulatory documents and the Listing Rules.

**Principal terms:** According to the Renewed Integrated Product and Service Framework Agreement, (i) the Group provides China Datang Group with products and services including service provision business, such as, environmental protection facility concession operation, water treatment operation and energy management contracting, product business, such as, the sale of denitrification catalyst, and engineering business, such as, environmental protection facilities engineering business, renewable energy engineering and other services; and (ii) the products and services procured by the Group from China Datang Group include service procurement business, such as, operational ancillary services, information technology services, and other services, and equipment and raw material procurement business, such as, supply of water, electricity and steam, procurement of equipment and raw materials and other products and services.

In respect of the abovementioned transactions under the Renewed Integrated Product and Service Framework Agreement, the Company and/or its subsidiaries and China Datang and/or its subsidiaries may enter into separate specific contracts in compliance with the Renewed Integrated Product and Service Framework Agreement as stipulated in the Renewed Integrated Product and Service Framework Agreement. If the terms and conditions of similar products and services provided by independent third parties are not favorable than that provided by one of the parties, then another party shall prioritize the procurement of products and services needed from the counterparty.

We consider that the above terms are fair and reasonable so far as the Independent Shareholders are concerned, as the Company will only prioritize the procurement of products and services to or from China Datang Group only if the terms and conditions of similar products and services provided by independent third parties are not more favorable than that provided by China Datang Group. In other words, terms of contracts entered into with China Datang will only be prioritized if they are on normal commercial terms or better and are beneficial to the Company and the Independent Shareholders as a whole.

### Proposed Annual Caps

The proposed annual caps of each transaction under the Renewed Integrated Product and Service Framework Agreement for each of the years ending 31 December 2025, 31 December 2026 and 31 December 2027 are as follows:

(RMB'000)	Type of transactions	Proposed annual caps for the year ending 31 December		
		2025	2026	2027
Provided by the Group to China Datang Group	Service provision business (Note 1)	4,782,000	4,853,000	4,903,000
	Product business (Note 2)	366,000	371,000	375,000
	Engineering business (Note 3)	1,123,000	874,000	989,000
Procured by the Group from China Datang Group	Service procurement business (Note 4)	370,000	373,000	375,000
	Equipment and raw material procurement business (Note 5)	1,751,000	1,795,000	1,822,000

#### Notes:

1. Service provision business mainly includes environmental protection facility concession operations (desulfurization and denitrification), water treatment operation, energy management contracting business, and renewable energy technology services.
2. Product business mainly includes the sale of denitrification catalyst and renewable catalyst.

3. Engineering business mainly includes flue gas treatment engineering, water treatment engineering and renewable energy engineering.
4. Service procurement business mainly includes environmental protection facility concession operations, water treatment operation ancillary service and information technology services.
5. Equipment and raw material procurement business mainly includes supply of water, electricity and steam, procurement of equipment and raw materials and other products.

We have discussed with the Company and are given to understand that, in determining the abovementioned proposed annual caps for 2025 to 2027, the Board has taken into account the following factors: (i) the terms of the existing relevant agreements; (ii) the historical amounts of various relevant transactions; (iii) outstanding contracts of the Group and new contracts to be entered into by the Group in the coming three years and the value of such new contracts; and (iv) the expected future market price of relevant products and services based on market conditions.

Specifically for the various transactions under the Renewed Integrated Product and Service Framework Agreement, the determination of the respective proposed annual caps is based on the following considerations:

***(a) Products and services to be provided by the Group to China Datang Group***

*Service provision business*

We note that the proposed annual cap for the service provision business is RMB4.782 billion for the year ending 31 December 2025, slightly increasing by approximately 1.5% and 1.0% to RMB4.853 billion and RMB4.903 billion for the two years ending 31 December 2027 respectively.

The service provision business of the Group mainly includes environmental protection facility concession operations (desulfurization and denitrification), water treatment operation, energy management contracting business, and renewable energy technology services.

In terms of environmental protection facility concession operation, the unit price of on-grid electricity is determined based on the environmental electricity price benchmark issued by the NDRC, and in some cases, through the bidding process. For more information on the environmental electricity price benchmark, please refer to the paragraph headed “Pricing Policy – (a) Products and services to be provided by the Group to China Datang Group – The pricing policy for service provision business under the concession operations (desulfurization and denitrification) services” in this section below. Considering the continuous growth of China’s domestic economy and the increase in electricity demand, an increase in the output from coal-fired power generation is expected. Together with the cumulative installed capacity in desulfurization and denitrification concession operations of the Group as of 31 December 2023 being 50,210MW and 41,240MW, respectively, the power generation output of China Datang Group requiring desulfurization and denitrification are estimated to be 2,194 billion kWh, 2,216 billion kWh and 2,238 billion kWh for each of the three years ending 31 December 2027, respectively.



We have reviewed the Company's annual report for the financial year ended 31 December 2023 and understand that in 2023, the Group recorded steady development in each business segment and maintained the leading position in business segments of environmental protection facility concession operation and denitrification catalysts. Also, based on the cumulative operating unit capacity as of 31 December 2023, the Group continued to maintain its position as the largest flue gas desulfurization and denitrification concession operator in the PRC. Based on the total output of denitrification catalysts in 2023, the Group remained as the PRC's largest producer of denitrification catalysts.

In 2023, all of the Group's desulfurization concession operation and denitrification concession operation projects under construction have transferred into operational stage in respect of the environmental protection facility concession operation business. While consolidating its leading position in the environmental protection field of thermal power segment, the Group actively developed environmental protection governance businesses in steel, cement, metallurgy and other non-electric fields to expand its business scope and influence.

In terms of water treatment operation, it is expected that the transaction amounts between the Group and China Datang Group in the next three years will maintain a similar level compared with that in 2023, while its percentage in the total operating income of the Group will still be relatively low.

In terms of energy management contracting business, it is expected that the transaction amounts between the Group and China Datang Group in the next three years will maintain a similar level as compared with that in 2023. It is a business model that the energy conservation companies provide energy conservation services to customers according to the energy conservation service contracts entered into with them, and recover the investment and gain profit from the energy efficiency achieved upon the completion of energy conservation facilities refurbishment.

In terms of renewable energy technology services, it is expected that the Group will undertake China Datang Group's renewable energy technology projects with the contract value expected to gradually increase over the three years ending 31 December 2027.

The proposed annual caps of the service provision business for the three years ending 31 December 2027 mainly include the ones of environmental protection facility concession operation, water treatment operation, energy management contracting business, and renewable energy technology services.

Given that the Group's existing environmental protection facility concession operation business is in a stable operating state, the environmental protection facility concession operation is estimated to remain at a constant rate with a slight increase for each of the three years ending 31 December 2027, where its proposed annual caps contribute to over 95% of the aggregate proposed annual caps of the service provision business. According to the Letter from the Board, the proposed annual caps for the environmental protection facility concession operation are calculated on the basis of the cumulative installed capacity in desulfurization and denitrification concession operations of the Group, the estimated projected power generation

output of China Datang Group requiring desulfurization and denitrification concession operations, and the estimated unit price of approximately RMB0.021/kWh calculated using the weighted average method based on the number of project requiring for the three years ending 31 December 2027 with reference to the prevailing government-prescribed prices and permitted range. We have reviewed the Company's calculations relating to the weighted average estimated unit price which is based on the desulfurization electricity price, the denitrification electricity price and ultra-low emission tariff together with the allowable variations as disclosed in the respective websites at [www.mee.gov.cn](http://www.mee.gov.cn) and [www.ndrc.gov.cn](http://www.ndrc.gov.cn), and consider that such calculations are fair and reasonable. We also confirm that it is fair and reasonable for the proposed annual caps to be based on the cumulative installed capacity for desulfurization and denitrification concession operations, which contributes over 95% of the proposed annual caps of the service provision business. We have reviewed a summary of the ongoing and committed projects requiring either or both desulfurization and denitrification services in each of the three financial years ending 31 December 2027 and confirm that the estimated total capacity of approximately 220 billion kWh is expected for each of the three years ending 31 December 2027. After review of the summary, we have no reason to doubt that the estimated installed capacity was not calculated by the Company after due and careful consideration and we consider that we have reviewed sufficient information to confirm that the projections are fair and reasonable. Based on the average unit price of RMB0.021/kWh as referred to in the above, this translates into a transaction value of approximately RMB4,620 million for each of the three financial years ending 31 December 2027, which is more than approximately 94% of the proposed annual cap for each of the three years ending 31 December 2027. Accordingly, we consider that the proposed annual cap for service provision business is fair and reasonable on the basis of the estimated project capacity in the next three financial years. We have also reviewed the annual report of the Company for the year ended 31 December 2023 and note that the Group's revenue from desulfurization and denitrification services amounted to approximately RMB4.32 billion, which represents the majority of approximately 80.4% of the total revenue of RMB5.37 billion.

In addition, it is expected that the existing projects for water treatment operation would contribute approximately RMB70 million to RMB75 million each year of the three years ending 31 December 2027. Similarly, with the existing projects in energy management contracting business, and taking into account that there is no intention to engage in new energy management contracting transactions with connected persons of the Company, the estimated transaction value will remain the same for the three years ending 31 December 2027. The estimated transaction value of renewable energy technology services is determined based on the contract value of the existing contracts on hand, and the estimated contract value of the projects to be undertaken by the Group for the three years ending 31 December 2027. As mentioned above, we have reviewed the annual report of the Company for the year ended 31 December 2023 and it is stated that the Group continued to be the largest desulfurization and denitrification concession operator and the largest manufacturer of denitrification catalysts in the PRC, which justified the demand from the existing projects.

We have discussed with the Company and understand that based on the leading position of the Group as the largest flue gas desulfurization and denitrification concession operator in China and the active development of environmental protection and management business in steel,

cement, metallurgy and other non-electric fields, the estimated provision of services for environmental protection facility concession operation by the Group to the China Datang Group will remain high and, as mentioned above, is expected to constitute the majority of approximately 95% of the proposed annual cap of service provision business for the year ending 31 December 2025. We further understand that the slight increase in the respective proposed annual cap for the financial years ending 31 December 2026 and 31 December 2027 is a result of the estimated timing of the respective service contracts for environmental protection facility concession operation, which reflects an increase of approximately 1 to 2% per annum.

We have discussed with the Company and understand that, as mentioned above, the estimated provision of services for water treatment operation by the Group to the China Datang Group will remain at similar levels compared to the historical amounts for the year ended 31 December 2023 and only constitute a minor portion of the proposed annual cap of service provision business for the year ending 31 December 2025.

We have also discussed with the Company and understand that, as mentioned above, the estimated provision of services for energy management contracting business by the Group to the China Datang Group will remain at similar levels compared to historical amounts for the year ended 31 December 2023 and only constitute a minor portion of the proposed annual cap of service provision business for the year ending 31 December 2025.

As set out in the section headed “Historical Transaction Amounts and Utilisation Rates” below, the utilisation rate of the service provision business (being the comparison between the historical transaction amount for the year ended 31 December 2023 and the annual cap for that year), almost reached full utilisation rate of approximately 99.0%.

#### *Product business*

We note that the proposed annual cap for product business is RMB366 million for the year ending 31 December 2025, slightly increasing by approximately 1.4% and 1.1% to RMB371 million and RMB375 million for the years ending 31 December 2027 respectively.

According to the Letter from the Board, the product business mainly includes the sale of denitrification catalysts and renewable catalysts. We have discussed with the Company and understand that all product businesses for the annual caps for the three years ending 31 December 2027 are denitrification catalyst businesses.

The proposed annual caps of the product business for the three years ending 31 December 2027 are determined based on the sales volume of denitrification catalysts and renewable catalysts from the Group to China Datang Group, which is expected to reach approximately 42,000 m<sup>3</sup> in 2025, an estimated average unit sale price of RMB8,700 estimated based on the average unit sale price of denitrification catalysts and renewable catalysts charged by the Group during the three years ended 31 December 2023, and an expected increase in sales revenue by approximately 1.3% to 1.4% annually in both 2026 and 2027 estimated based on an expected increase in average unit sale price due to the expected launch of high value-adding

catalyst products, which are currently under development, during the three years ending 31 December 2027. Based on the expected sales volume of 42,000 m<sup>3</sup> in 2025 as referred to in the above and the estimated average unit sale price of RMB8,700, the expected transaction value is approximately RMB365.4 million, which is more than 97% of the proposed annual cap for each of the three years ending 31 December 2025. Accordingly, we consider that the proposed annual caps for the three years ending 31 December 2027 is fair and reasonable. Also, based on the annual report of the Company for the year ended 31 December 2023, the Group sold 46,147.69 m<sup>3</sup> of catalysts in total, of which 12,944.76 m<sup>3</sup> were sold to customers other than China Datang Group, i.e. in 2023, the Group sold 33,202.93 m<sup>3</sup> of catalysts to China Datang Group. The increase to 42,000 m<sup>3</sup> for the three years ending 31 December 2027 therefore represents an increment of only approximately 26.5% from 33,202.93 m<sup>3</sup> in 2023. In addition, under the promotion of the national “dual carbon” strategy and green development policies in China for the coming years, enterprises are expected to bear increasing environmental protection responsibilities and we are given to understand that the wide application of denitrification catalysts is one of the important means to achieve such environmental protection goals of the Chinese government. In view of such circumstances, we consider that the Company’s estimation of the increase in the sales volume and the total transaction value for the three years ending 31 December 2027 of approximately RMB365.4 million is therefore fair and reasonable.

#### *Engineering business*

We note that the proposed annual cap for engineering business is RMB1.123 billion for the financial year ending 31 December 2025, decreasing by approximately 22.2% to RMB874 million for the year ending 31 December 2026 and then increasing by approximately 13.2% to RMB989 million for the year ending 31 December 2027.

According to the Letter from the Board, the engineering business mainly includes flue gas treatment engineering, water treatment engineering and renewable energy engineering.

The Group has strategically transformed the business model of its renewable energy engineering business segment from EPC contracting to focusing on design-led engineering technical services, and established the renewable energy design institute (新能源設計院) in 2023 to provide renewable energy engineering design and technical services. Therefore, a significant increase in the transaction amounts of renewable energy engineering design and technical services is expected. Also, given the influence of national policies to strengthen pollution prevention and control as well as develop circular economy, it is expected that the number of construction projects such as dust control, desulfurization and denitrification to be undertaken by the Group in the future three years will steadily increase.

The proposed annual caps of the engineering business for the three years ending 31 December 2027 are determined based on the expected revenue recognition from ongoing engineering projects, which is based on their contractual progress and completion timelines, and the anticipated new contracts for engineering projects over the three years ending 31 December 2027, taking into account the Group’s growth expectations and market conditions.

We have discussed with the Company and understand that the contractual progress and completion timelines of ongoing engineering projects and the timing of anticipated new contracts is the main reason for the substantial reduction of approximately 74.2% in the proposed annual cap of RMB1.123 billion for the year ending 31 December 2025 from the existing cap of RMB4.346 billion for 2024, and a subsequent decrease of approximately 22.2% to RMB874 million for the year ending 31 December 2026 and then an increase of approximately 13.2% to RMB989 million for the year ending 31 December 2027.

We have also reviewed the breakdown for engineering business and note that flue gas treatment engineering business makes up the majority of the requirements for the proposed annual caps for the three years ending 31 December 2027, which is composed of project timelines which are consistent with the timelines for the ongoing and committed projects, including new projects, totaling approximately RMB526.9 million, RMB548.4 million and RMB610.2 million for each of the three years ending 31 December 2027, which is approximately 47%, 67% and 68% of the annual cap for each of the three years ending 31 December 2027 respectively. Water treatment engineering is projected to be valued at approximately RMB250 million to RMB280 million for the three years ending 31 December 2027. After review of the breakdown of the projects, we have no reason to doubt that the projections were not made by the Company after due and careful consideration and we consider that we have reviewed sufficient information to confirm that the projections are fair and reasonable. Also, we note that the decrease in the proposed annual caps for the two years ending 31 December 2027 is due to the lack of renewable energy engineering business expected for those two years. Accordingly, we confirm that the basis for determination of the proposed annual caps of engineering business for the three years ending 31 December 2027, as supported by the timeline of ongoing projects and estimations for new engineering projects, are therefore fair and reasonable.

**(b) *Products and services to be procured by the Group from China Datang Group***

*Service procurement business*

We note that the annual cap of service procurement business for the year ending 31 December 2025 is RMB370 million, increasing slightly by approximately 0.8% to RMB373 million and approximately 0.5% to RMB375 million for the two years ending 31 December 2027 respectively.

According to the Letter from the Board, service procurement business includes environmental protection facility concession operation, water treatment operation ancillary service, information technology services and other services.

In respect of concession operation ancillary service to be procured by the Group from China Datang Group, based on the existing contracts on hand, the expected costs of service to be procured by the Group from China Datang Group are expected to be RMB265 million annually for the three years ending 31 December 2027, which is in line with the increase in the volume of the desulfurization and denitrification concession operation service to be provided by the Group to China Datang Group for the next three years. We have discussed with the Company

and understand that the concession operation ancillary service makes up the majority of service procurement business and approximately 71.8% of the proposed annual cap for the year ending 31 December 2025 and such estimations are based on the ongoing projects. We have reviewed a summary of the ongoing projects for concession operation ancillary services and confirm that the total expected cost of service to be procured by the Group from China Datang Group is expected to be RMB265 million for each of the financial years ending 31 December 2027. For water treatment operation ancillary service, given that following the increase in service lives of equipment, the workload for daily operating maintenance and equipment repair will also increase, resulting in a gradual growth in the expected costs for the three years ending 31 December 2027, being RMB67.5 million, RMB69 million and RMB70.5 million respectively.

The information technology services to be procured by the Group from China Datang Group for the next three years mainly include software design, construction of information system and relevant information service.

We have discussed with the Company and understand that the proposed annual caps of the service procurement business are highly correlated to the transaction value under the service provision business, the product business and the engineering business to be provided by the Group to China Datang Group. Given the Group's strategic transformation in the business model of its renewable energy engineering business segment from EPC contracting to designed engineering technical services, a significant increase in the transaction amounts of renewable energy engineering design and technical services is expected due to the establishment of the renewable energy design institute (新能源設計院) in 2023 as referred to in the above. The proposed annual caps of the service procurement business increased by 87.4%, 89.0% and 90.8% for the three years ending 31 December 2027 as compared with annualised historical transaction results for the six months ended 30 June 2024 to accommodate this anticipated growth in demand. Based on our discussion with the Company, we also understand that the projections for service procurement business for the three years ending 31 December 2027 are based on the expected growth and number of projects for the service provision business, product business and the engineering business as set out above. Accordingly, we agree with the Directors that the proposed annual caps of the service procurement business for the three years ending 31 December 2027 are fair and reasonable.

#### *Equipment and raw material procurement business*

We note that the annual cap of equipment and raw material procurement business for the year ending 31 December 2025 is RMB1.751 billion, which represents a decrease of approximately 20.3% from the annual cap for the year ending 31 December 2024. The annual cap of equipment and raw material procurement business subsequently increases slightly by approximately 2.5% to RMB1.795 billion and approximately 1.5% to RMB1.822 billion for the two years ending 31 December 2027 respectively.

According to the Letter from the Board, equipment and raw material procurement business includes supply of water, electricity and steam, procurement of equipment and raw materials and other products. In respect of water, electricity and steam to be procured by the Group from

China Datang Group, the Directors believe that the proposed annual caps for the next three years will continuously and steadily increase along with the rising power generation output of China Datang Group requiring desulfurization and denitrification concession operations. The estimated price, volume and percentage to the proposed annual caps for the equipment and raw material procurement business regarding the supply of water, electricity and steam for the three years ending 31 December 2027 are as follows:

(RMB)	Estimated price per unit	Estimated volume	Percentage to the proposed annual caps for the equipment and raw material procurement business		
			For the year ending	For the year ending	For the year ending
			31 December 2025	31 December 2026	31 December 2027
Supply of water	3.3/tonne	32.7 million tonnes	6.1%	6.0%	6.0%
Supply of electricity	381.0/mWh	3,336 million kWh	72.6%	71.4%	70.9%
Supply of steam	144.1/tonne	606.3 thousand tonnes	5.0%	4.9%	4.9%
<b>Total</b>			<b>83.7%</b>	<b>82.3%</b>	<b>81.8%</b>

We have discussed with the Company and understand that the estimated unit price as set out above for the respective supply of water, electricity and steam is based on the government-prescribed prices, which according to [www.ndrc.gov.cn](http://www.ndrc.gov.cn), refers to the actual cost incurred, and the estimated volume is based on the estimated generation output of ongoing and committed projects of China Datang Group requiring desulfurization and denitrification concession operations. We consider that it is fair and reasonable for the Company to estimate the price per unit based on the government-prescribed prices and to estimate the volume based on ongoing and committed projects of China Datang Group. As stated in the section headed “Reasons for and Benefits of entering into of the Renewed Integrated Product and Service Framework Agreement” below, according to the Board, China Datang Group and the Group have a long-term, stable business relationship and the parties are mutually familiar with each other’s business demands and are able to supply the products and services needed by each other. Based on the Company’s previous experience in business dealings with China Datang Group, the Company believes that the Group and China Datang Group are capable of effectively satisfying each other’s stable and high-quality demands for relevant businesses, which is in the interests of the Group and the Shareholders as a whole. Accordingly, there is no reason for us to doubt that the Group is familiar with the future requirements of the China Datang Group and has made the projections above after due and careful consideration.

As shown above, the estimated total value of the supply of water, electricity and steam already constitutes over approximately 80% of the proposed annual caps for each of the three financial years ending 31 December 2027. We consider that it is fair and reasonable to make the projections based on government-prescribed prices and in accordance with the estimated generation output of China Datang Group requiring desulfurization and denitrification concession operations. The transaction amount of procurement of equipment and raw materials is mainly determined based on the scale of the environmental protection facilities

engineering, water treatment operation, energy management constructing business, renewable energy engineering and other engineering business to be provided by the Group to China Datang Group. As it is expected that the overall scale of the abovementioned business segments of the Group in the coming years will increase steadily, it is expected that the procurement of equipment and raw materials will also increase accordingly. In particular, as the concession operation business progresses and the service lives of the equipment increase, the frequency of equipment maintenance is expected to increase, leading to growth in raw material costs used for the purposes of equipment maintenance and investment required for replacement of spare parts. As for procurement of equipment and raw materials for engineering projects, the corresponding proposed annual caps is determined based on the expected transaction amounts, which is estimated from the expected procurement cost per project and the number of ongoing and committed projects, as well as the number of estimated new projects for the three years ending 31 December 2027, including dust removal, environmental engineering, desulfurization, zero wastewater discharge and water condensate, expected to be undertaken by the Group or remain outstanding. The expected transaction amounts are RMB177.0 million, RMB197.5 million and RMB206.9 million for each of the three years ending 31 December 2027, respectively.

The percentages of procurement for the equipment and raw material procurement business other than water, electricity and steam to the proposed annual caps are 16.3%, 17.7% and 18.2% for each of the three years ending 31 December 2027, respectively. We have reviewed the breakdown of the projections of the procurement for the equipment and raw materials other than water, electricity and steam which were made based on estimated project timelines and anticipated demand from the relevant departments of the Group. After review of the breakdown of the projections, we have no reason to doubt that the projections were not made by the Company after due and careful consideration and we consider that we have reviewed sufficient information to confirm that the projections are fair and reasonable.

In the meantime, as China Datang Group is able to effectively reduce the purchasing price of part of the equipment and raw materials through centralized procurement and distribution process, the Group may also purchase part of the equipment and raw materials from China Datang Group through bidding process.

We have discussed with the Company and understand that the proposed annual caps of the equipment and raw material procurement business are also highly correlated to the transaction value under the service provision business, the product business and the engineering business to be provided by the Group to China Datang Group. Based on our discussion with the Company, we also understand that the projections for equipment and raw material procurement business for the three years ending 31 December 2027 are based on the expected growth and number of projects for the service provision business, the product business and the engineering business as set out above. Accordingly, we agree with the Directors that the proposed annual caps of the equipment and raw material procurement business for the three years ending 31 December 2027 are fair and reasonable.



## Historical Transaction Amounts and Utilisation Rates

The historical transaction amounts of each transaction under the Existing Integrated Product and Service Framework Agreement for each of the last two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

(RMB'000)	Type of transactions	Historical transaction amounts		
		For the year ended 31 December 2022	For the year ended 31 December 2023	For the six months ended 30 June 2024
Provided by the Group to China	Service provision business	4,057,905	4,046,245	1,788,457
Datang Group	Product business	152,642	150,041	98,307
	Engineering business	627,054	923,119	211,874
Procured by the Group from China	Service procurement business	182,231	148,961	98,702
Datang Group	Equipment and raw material procurement business	1,692,065	1,938,474	547,263

The historical utilisation rates for each transaction under the Existing Integrated Product and Service Framework Agreement for the year ended 31 December 2023, being the latest full financial year available, and the six months ended 30 June 2024, are set out as follows:

(RMB'000)	Type of transactions	Historical annual caps for the year ended 31 December 2023	Historical transaction amounts for the year ended 31 December 2023 (Utilisation rate %)	Historical annual caps for the year ending 31 December 2024	Historical transaction amounts for the six months ended 30 June 2024 (Annualised utilisation rate %)
					(Note 1)
Provided by the Group to China Datang Group	Service provision business	4,086,000	4,046,245 (99.0%)	4,029,000	1,788,457 (88.8%)
	Product business	271,000	150,041 (55.4%)	272,000	98,307 (72.3%)
	Engineering business	4,005,000	923,119 (23.0%) (Note 2)	4,346,000	211,874 (9.8%) (Note 2)
Procured by the Group from China Datang Group	Service procurement business	464,000	148,961 (32.1%) (Note 3)	481,000	98,702 (41.0%) (Note 3)
	Equipment and raw material procurement business	2,088,000	1,938,474 (92.8%)	2,197,000	547,263 (49.8%)

*Notes:*

1. The annualised utilisation rate is calculated by taking the actual transaction amounts for the six months ended 30 June 2024 and dividing it by the proportionate six-month portion of the historical annual cap for the year ending 31 December 2024 for illustration purposes.
2. The Group originally planned to develop its renewable energy engineering business through undertaking EPC contracting projects; however, due to the low profit margin of such projects, the Group gradually reduced the scale of its operations in these projects in recent years. This resulted in the historical transaction amounts of the engineering business being lower than expected for the two years ended 31 December 2023 and six months ended 30 June 2024, leading to relatively low utilisation rates. However, the Group established the renewable energy design institute (新能源設計院) in 2023 to provide renewable energy engineering design and technical services. Therefore, despite the reduction in the scale of EPC contracting operations, a significant increase in the transaction amounts of renewable energy engineering design and technical services is expected. The higher proposed annual caps for the engineering business, compared to historical transaction amounts, are intended to accommodate such growth in the renewable energy engineering business.
3. The lower-than-expected transaction amounts in the renewable energy engineering business, as explained in Note 2 above, affected the corresponding service procurement amounts, resulting in, similarly, low utilisation rates for the service procurement business. However, for the same reasons stated in Note 2, the transaction amounts of the Group's renewable energy engineering business, specifically of design and technical services, are expected to increase in the upcoming three years. Hence, higher proposed annual caps for the service procurement business have been made to accommodate this anticipated growth in demand.

As shown in the table above, the utilisation rate of the service provision business provided by the Group to China Datang Group, expressed as a percentage of the historical amount for the year ended 31 December 2023 compared to the annual cap for that year is almost fully utilised at approximately 99.0%. Based on the high utilisation rate for service provision business, the proposed annual cap for 2024 has increased by approximately 18.7% from RMB4.029 billion in 2023 to RMB4.782 billion in 2024. Due to the high utilisation rate for 2023, we consider that the proposed annual caps for service provision business for the three years ending 31 December 2027 are fair and reasonable.

The utilisation rate of the product provision business provided by the Group to China Datang Group, expressed as a percentage of the historical amount for the year ended 31 December 2023 compared to the annual cap for that year is approximately 55.4%. However, the annualised utilisation rate for 2024 has increased to approximately 72.3% (being the annualised utilisation rate based on RMB98,307,000 for the six months ended 30 June 2024, compared to the annual cap of RMB272 million for 2024). Accordingly, we consider the subsequent increase of the proposed annual cap for the year ending 31 December 2025 to RMB366 million is fair and reasonable.

The utilisation rate of the engineering business provided by the Group to China Datang Group, expressed as a percentage of the historical amount for the year ended 31 December 2023 compared to the annual cap for that year is relatively low at approximately 23.0%. Accordingly, we consider the subsequent significant decrease of the proposed annual cap for the year ending 31 December 2025 to RMB1,123 million from RMB4,346 million for the year ending 31 December 2024 is fair and reasonable.

The utilisation rate of the service procurement business procured by the Group from China Datang Group, expressed as a percentage of the historical amount for the year ended 31 December 2023 compared to the annual cap for that year is relatively low at approximately 32.1%. Accordingly, we consider the subsequent decrease of the proposed annual cap for the year ending 31 December 2025 to RMB370 million from RMB481 million for the year ending 31 December 2024 is fair and reasonable.

The utilisation rate of the equipment and raw material procurement business procured by the Group from China Datang Group, expressed as a percentage of the historical amount for the year ended 31 December 2023 compared to the annual cap for that year is high at approximately 92.8%. However, the annualised utilisation rate for 2024 has decreased to approximately 49.8% (being the annualised utilisation rate based on RMB547,263,000 for the six months ended 30 June 2024, compared to the annual cap of RMB2,197 million for 2024). Accordingly, we consider the subsequent decrease of the proposed annual cap for the year ending 31 December 2025 to RMB1,751 million from RMB2,197 million for the year ending 31 December 2024 is fair and reasonable.

### **Pricing Policy**

Under the Renewed Integrated Product and Service Framework Agreement, the pricing policy of the various products and services are as follows:

#### ***(a) Products and services to be provided by the Group to China Datang Group***

According to the Letter from the Board, in most circumstances where China Datang Group purchases products and/or services from the Group, bidding procedures shall apply for the determination of prices. Only in exceptional circumstances, bidding procedures can be skipped by China Datang Group. These circumstances primarily include (a) reoccurrence of lack of sufficient number of bidders attending the bidding procedure; and (b) urgent procurement demand by China Datang Group that does not allow the bidding procedure to be completed.

*The pricing policy for service provision business under the concession operations (desulfurization and denitrification) services:*

The Measures for the Supervision and Administration of Prices of Electricity from Coal-Fired Generating Units with Environmental Protection Facilities and the Operation of the Environmental Protection Facilities (《燃煤發電機組環保電價及環保設施運行監管辦法》) issued by the NDRC and the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部) on 28 March 2014 specify that environmental price-increasing policies are implemented to the newly-built or retrofitted environmental protection facilities of the coal-fired generating units. In addition, The Opinions on Promoting the Third-Party Treatment of Environmental Pollution (《關於推行環境污染第三方治理的意見》) issued by the General Office of the State Council on 27 December 2014 specify the comprehensive implementation of environmental electricity tariffs of desulfurization, denitrification and dust removal for all coal-fired generating units. In order to implement the supportive policies on electric tariff of “promoting the refurbishment of ultra-low emission of coal-fired power plants”, the NDRC, MEP (the Ministry of Environmental Protection, currently known as MEE) and the National

Energy Administration promulgated the Notice on the Implementation of Coal-fired Power Plants Ultra-low Emission Tariff Supportive Policy Related Issues (《關於實行燃煤電廠超低排放電價支持政策有關問題的通知》) on 2 December 2015, and the policy became effective on 1 January 2016.

Furthermore, the NDRC issued the Guiding Opinions on Deepening the Reform of the Mechanism for Forming On-grid Tariffs of Coal-Fired Power Generation (《國家發展和改革委員會關於深化燃煤發電上網電價形成機制改革的指導意見》) on 21 October 2019, which accordingly clarified the environmental electricity price policy. For coal-fired power generation implementing the “benchmark price plus floating” pricing mechanism, the benchmark price includes the tariffs for desulfurization, denitrification, and dust removal. For power supply still guaranteed by power grid enterprises, the current ultra-low emission electricity price policy continues to be implemented on the basis of the benchmark price. For coal-fired power generation on-grid electricity prices that are fully liberalized and formed by the market, the on-grid price includes the tariffs for desulfurization, denitrification, dust removal, and ultra-low emissions.

Thus, the tariff for desulfurized and denitrified electricity under the concession operation services shall be determined based on government-prescribed prices, according to the actual on-grid electricity price of power generation enterprises. The unit prices for desulfurized and denitrified electricity are RMB0.015/kWh and RMB0.01/kWh, respectively. For ultra-low emission electricity, the unit prices for projects already in operation before 2016 and after 2016 are RMB0.01/kWh and RMB0.005/kWh, respectively. The price of by-products shall be determined based on market prices (which are determined through the public market and independent service providers through bidding processes, and taking into account comparable conditions, including but not limited to the technology and quality of the services, obtained through other prices negotiated through market mechanisms in relation to the provision of similar services in similar industries).

We consider that the pricing of tariff for desulfurized and denitrified electricity under the concession operation services which is determined based on government-prescribed prices, according to the actual on-grid electricity price of power generation enterprises, will ensure that the terms will be on normal market terms or better. Also, the pricing of by-products by market price or bidding process will also ensure that the prices for by-products will be at market price or better and is therefore fair and reasonable so far as the Independent Shareholders are concerned.

During the period under review for the two years ended 31 December 2023 and the six months ended 30 June 2024, there were no new contracts for desulfurized and denitrified electricity under the concession operation in order for us to confirm whether the contracts were made pursuant to a bidding process with China Datang Group and/or its associates as all contracts were awarded under existing ongoing long-term contracts which commenced prior to the abovementioned period under review.

*The pricing policy for other service provision business:*

The price of the services other than the concession operations (desulfurization and denitrification) to be provided by the Group to China Datang Group in accordance with the Renewed Integrated Product and Service Framework Agreement shall be determined based on the following policy:

If a bidding procedure is conducted by China Datang Group, the bidding price offered by the successful bidder shall be implemented. Prior to the bidding procedures, China Datang will publish announcements on its bidding invitation on public websites. There must be at least three bidders attending the bidding procedure, otherwise the bidding will be cancelled. The review panel for any bidding consists of experts selected by China Datang who have no interest in the bidding, and will score the bids by categories where bidding price is an important but not the only factor to be considered (other factors include the requisite service qualifications of the bidders, the results and credentials of similar types of services, overall technical capabilities, provision of technical plans and commercial goodwill). The bidder with the highest score comprehensively determined by the review panel wins and the bidding price offered by the bidder will be implemented. Therefore, only in the event that the Group wins the bidding with the highest score determined by the review panel, China Datang Group will enter into agreements with the Group under the Renewed Integrated Product and Service Framework Agreement.

Only in exceptional circumstances, such as in case of reoccurrence of lack of sufficient number of bidders attending the bidding procedure and urgent procurement demand by China Datang Group, bidding procedures can be skipped by China Datang Group where China Datang Group will search in its database for projects of a similar nature and make reference to recent bidding prices for comparable services. Usually the price is ascertained as the averaged amount of these recent bidding prices with reasonable fluctuations. However, if no recent bidding prices for comparable services can be found in its database, China Datang Group will make reference to prices of services of a similar nature published on official bidding websites operated by the Chinese government to ascertain the price.

Meanwhile, the Group will also make reference to the price quotes offered by, or available from, three third party customers so as to make relevant comparison with the price quotes offered by China Datang Group. The Group will consider providing relevant services to such third-party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors, including but not limited to, price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties.

We consider that the pricing of other service provision business by bidding process, recent bidding price or market price from other sources as stated above will ensure that the prices for other service provision business will be on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned. Also, as the Group will consider providing the relevant services to other third party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors,

including but not limited to, price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties, we consider that it is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

During the period under review for the two years ended 31 December 2023 and the six months ended 30 June 2024, there were no new contracts for other service provision business in order for us to confirm whether the contracts were made pursuant to a bidding process with China Datang Group and/or its associates as all contracts were awarded under existing ongoing long-term contracts which commenced prior to the abovementioned period under review.

*The pricing policy for product business:*

In accordance with the Renewed Integrated Product and Service Framework Agreement, the products, primarily denitrification catalysts, to be provided by the Group to China Datang Group will be determined based on the following pricing policy:

If a bidding procedure is conducted by China Datang Group, the bidding price offered by the successful bidder shall be implemented. Prior to the bidding procedures, China Datang Group will publish announcements on its bidding invitation on public websites. There must be at least three bidders attending the bidding procedure, otherwise the bidding will be cancelled. The review panel for any bidding consists of experts selected by China Datang Group who have no interest in the bidding, and will score the bids by categories where bidding price is an important but not the only factor to be considered (other factors include the requisite qualifications of production and operation of the bidders, the results and credentials of similar types of projects, overall technical capabilities, provision of technical plans and commercial goodwill). The bidder with the highest score comprehensively determined by the review panel wins and the bidding price offered by the bidder will be implemented. Therefore, only in the event that the Group wins the bidding with the highest score determined by the review panel, China Datang Group will enter into agreements with the Group under the Renewed Integrated Product and Service Framework Agreement.

Only in exceptional circumstances, such as in case of reoccurrence of lack of sufficient number of bidders attending the bidding procedure and urgent procurement demand by China Datang Group, bidding procedures can be skipped by China Datang Group where China Datang Group will search in its database for projects of a similar nature and make reference to recent bidding prices for comparable products. Usually the price is ascertained as the averaged amount of these recent bidding prices with reasonable fluctuations. However, if no recent bidding prices for comparable products can be found in its database, China Datang Group will make reference to prices of products of a similar nature published on official bidding websites operated by the Chinese government to ascertain the price.

Meanwhile, the Group will also make reference to the price quotes offered by, or available from, three third party customers so as to make relevant comparison with the price quotes offered by China Datang Group. The Group will consider providing relevant products to such third-party customers if their terms are more favourable than that offered by China Datang

Group after taking into account of various factors, including but not limited to, price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties.

We consider that the pricing of product business by bidding process, recent bidding price or market price from other sources as stated above will ensure that the prices for product business will be on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned. Also, as the Group will consider providing relevant products to other third-party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors, including but not limited to, price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties, we consider that it is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

We have been provided with three samples of contracts for product business and confirmed that the contracts were made pursuant to a bidding process with China Datang Group and/or its associates. The three samples were selected by the Company on a random basis for the purposes of our review of the Company's pricing policy and since the Company's independent non-executive Directors and auditors will review the transactions in relation to the continuing connected transactions on an annual basis, we have no reason to doubt that such pricing policy is not consistently followed by the Company. We consider that the selected samples are adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed and that the terms of the transactions between the Company and China Datang Group are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the pricing policy is able to ensure that the continuing connected transactions are conducted on normal commercial terms or better and not prejudicial to the interests of the Company and the Independent Shareholders as a whole. The above three samples represent all the samples reviewed by us on the basis that the samples of transactions selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties.

*The pricing policy for engineering business:*

If a bidding procedure is conducted by China Datang Group, the bidding price offered by the successful bidder shall be implemented. Prior to the bidding procedures, China Datang Group will publish announcements on its bidding invitation on public websites. There must be at least three bidders attending the bidding procedure, otherwise the bidding will be cancelled. The review panel for any bidding consists of experts selected by China Datang Group who have no interest in the bidding, and will score the bids by categories where bidding price is an important but not the only factor to be considered (other factors include the requisite qualifications of production and operation of the bidders, the results and credentials of similar types of projects, overall technical capabilities, provision of technical plans and commercial goodwill). The bidder with the highest score comprehensively determined by the review panel wins and the bidding price offered by the bidder will be implemented. Therefore, only in the

event that the Group wins the bidding with the highest score determined by the review panel, China Datang Group will enter into agreements with the Group under the Renewed Integrated Product and Service Framework Agreement.

Only in exceptional circumstances, such as in case of reoccurrence of lack of sufficient number of bidders attending the bidding procedure and urgent procurement demand by China Datang Group, bidding procedures can be skipped by China Datang Group where China Datang Group will search in its database for projects of a similar nature and make reference to recent bidding prices for comparable products. Usually the price is ascertained as the averaged amount of these recent bidding prices with reasonable fluctuations. However, if no recent bidding prices for comparable products can be found in its database, China Datang Group will make reference to prices of products of a similar nature published on official bidding websites operated by the Chinese government to ascertain the price.

Meanwhile, the Group will also make reference to the price quotes offered by, or available from, three third party customers so as to make relevant comparison with the price quotes offered by China Datang Group. The Group will consider providing relevant products to such third-party customers if their terms are more favourable than that offered by China Datang Group after taking into account of various factors, including but not limited to, price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties.

We consider that the pricing of engineering business by bidding process, recent bidding price or market price from other sources as stated above will ensure that the prices for engineering business will be on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned. As the Group will consider providing relevant products to other third-party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors, including but not limited to, price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties, we consider that it is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

We have been provided with three samples of contracts for engineering business and confirmed that the contracts were made pursuant to a bidding process with China Datang Group and/or its associates. The three samples were selected by the Company on a random basis for the purposes of our review of the Company's pricing policy and since the Company's independent non-executive Directors and auditors will review the transactions in relation to the continuing connected transactions on an annual basis, we have no reason to doubt that such pricing policy is not consistently followed by the Company. We consider that the selected samples are adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed and that the terms of the transactions between the Company and China Datang Group are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the pricing policy is able to ensure that the continuing connected transactions are conducted on normal commercial terms or better and not prejudicial to the interests of the Company and the Independent Shareholders as a whole. The above three samples represent all the samples reviewed by us on the basis that the samples of transactions



selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties.

**(b) *Products and services to be procured by the Group from China Datang Group***

According to the Letter from the Board, in most circumstances where the Group purchases products and/or services from China Datang Group, bidding procedures shall apply for determination of the price. Only in exceptional circumstances, bidding procedures can be skipped by the Group. These circumstances primarily include (a) reoccurrence of lack of sufficient number of bidders attending the bidding procedure; and (b) urgent procurement demand by the Group that does not allow the bidding procedure to be completed.

*Pricing policy for products:*

*The pricing policy for service procurement business:* In respect of the ancillary services under the concession operations of desulfurization and denitrification and water treatment, the price shall be determined based on the relevant labour costs, the relevant management expenses and the equipment maintenance fees associated with the relevant power plants after taking into account the average level of the industry. If no bidding process is conducted, apart from making reference to prices on official bidding websites, the Group will also make reference to the price quotes offered by, or available from, three third party customers so as to make relevant comparison with the price quotes offered by China Datang Group. The Group will consider purchasing the relevant ancillary services from such third-party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors, including but not limited to, price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties.

We consider that the pricing of the above service procurement business by bidding process, recent bidding price or market price from other sources as stated above will ensure that the prices for products will be on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned. Also, as the Group will consider purchasing the relevant ancillary services from other third party customers if their terms are more favourable than that offered by China Datang Group after taking into account various factors, including but not limited to, price quotes, other commercial terms, level of synergy to be achieved and historical transactional records with such parties, we consider it is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

We have been provided with two samples of contracts for service procurement and confirmed that the contracts were made pursuant to a bidding process with the best terms provided by China Datang and/or its associates. The two samples were selected by the Company on a random basis for the purposes of our review of the Company's pricing policy and since the Company's independent non-executive Directors and auditors will review the transactions in relation to the continuing connected transactions on an annual basis, we have no reason to doubt that such pricing policy is not consistently followed by the Company. We consider that the selected samples are adequate, sufficient, fair and representative in concluding our view

that the above pricing policy was properly followed and that the terms of the transactions between the Company and China Datang Group are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the pricing policy is able to ensure that the continuing connected transactions are conducted on normal commercial terms or better and not prejudicial to the interests of the Company and the Independent Shareholders as a whole. The above two samples represent all the samples reviewed by us on the basis that the samples of transactions selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties.

*The pricing policy for other service procurement businesses:* In most circumstances where the Group purchases services from China Datang Group, bidding procedures shall be applied for the determination of prices. Only in exceptional circumstances, bidding procedures can be skipped by the Group where the purchasing price shall be determined by experts of the Group based on fair market value and historical records of procurement price. We consider that the pricing of other service businesses by bidding process or market price from other sources as stated above will ensure that the prices for products will be on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned. We have been provided with two samples of contracts for other service procurement and confirmed that the contracts were made pursuant to a bidding process with the best terms provided by China Datang and/or its associates. The two samples were selected by the Company on a random basis for the purposes of our review of the Company's pricing policy and since the Company's independent non-executive Directors and auditors will review the transactions in relation to the continuing connected transactions on an annual basis, we have no reason to doubt that such pricing policy is not consistently followed by the Company. We consider that the selected samples are adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed and that the terms of the transactions between the Company and China Datang Group are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the pricing policy is able to ensure that the continuing connected transactions are conducted on normal commercial terms or better and not prejudicial to the interests of the Company and the Independent Shareholders as a whole. The above two samples represent all the samples reviewed by us on the basis that the samples of transactions selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties.

*The pricing policy for supply of water, electricity and steam:* In accordance with the Renewed Integrated Product and Service Framework Agreement, the price of the products, primarily, water, electricity and steam supplied by power plants under China Datang Group to the Group, will be determined based on the actual costs incurred by power plants when supplying such products to third-party desulfurization and denitrification concession operation service providers per the government's prescribed requirements. We consider that it is fair and reasonable for the supply of water, electricity and steam to be determined based on the actual costs incurred by the power plants as it will ensure that the terms are on normal commercial terms or better.

*The pricing policy for procurement of equipment and raw materials:* In respect of the procurement of equipment and raw materials, in most circumstances, bidding procedures shall apply for determination of the purchasing price. Such price is the bidding price provided by the bid-winner. China Datang Group will charge a fee (the “**Service Fee**”) not exceeding 6% of the purchasing price. The Service Fee shall be determined on the basis of the actual scope of services provided by an independent third-party service provider and the pricing standard of the relevant services and materials. The Service Fee shall be fairly agreed between the parties and shall not exceed the fee charged for similar services provided by China Datang Group to an independent third party or its affiliated entities. Upon the execution of the relevant procurement contract, the Supply Chain Management Department (供應鏈管理部) will review and approve the Service Fee and ensure that it will not exceed 6% of the relevant purchasing price. Only in exceptional circumstances, such as in case of urgent procurement demand of the Group, can the bidding procedures be skipped by the Group where the purchasing price shall be determined by experts of the Group based on fair market value and historical records of procurement price.

We have discussed with the Company and understand that the centralized procurement of equipment and raw materials will enable the Company to secure the most competitive price through bulk purchase and the Company considers that the payment of a handling fee to China Datang Group, of not more than 6% of the purchase price, is fair and reasonable to the Company as the potential cost savings outweighs the handling fees. We consider that, on the basis the centralized procurement of equipment and raw materials will enable the Company to gain cost savings that outweigh the handling fees of not more than 6%, the terms for procurement of equipment and raw materials are fair and reasonable.

#### **Reasons for and Benefits of entering into of the Renewed Integrated Product and Service Framework Agreement**

China Datang Group and the Group have a long-term, stable business relationship. The parties are mutually familiar with each other’s business demands and are able to supply the products and services needed by each other. The Directors believe that maintaining a stable and quality business relationship with China Datang Group will facilitate its current and future business operations.

According to the Letter from the Board, based on the Company’s previous experience in business dealings with China Datang Group, the Company believes that the Group and China Datang Group are capable of effectively satisfying each other’s stable and high-quality demands for relevant businesses, which is in the interests of the Group and the Shareholders as a whole.

We agree that the terms of the Renewed Integrated Product and Service Framework Agreement with China Datang Group are on normal commercial terms or better, which is generally made through a bidding process or by reference to market price, in the ordinary and usual course of business of the Group, and are beneficial to the Company and in the interests of the Company and the Shareholders as a whole as China Datang Group is familiar with the Company’s business and business demands.

With respect to the service provision business and engineering business, given the Group's background of the leading market position in the PRC and the scale of operations involved, we consider it is reasonable that the Company will continue to have certain contractual relationships with China Datang Group, which is one of the five major state wholly-owned power generation groups in the PRC, and is therefore in the interests of the Company and the Shareholders as a whole. Considering the reasons stated above, including that deriving the majority of revenue from the holding company is in line with the general market practice of other leading market players of concession operations in the environmental protection industry, we consider that the transactions contemplated under the Renewed Integrated Product and Service Framework Agreement will not give rise to reliance issue of the Company with its connected persons and controlling shareholder and we are of the view that the measures adopted by the Company to prevent undue reliance on its connected persons and controlling shareholder as stated above are effective.

### **Relevant Internal Control Measures of the Renewed Integrated Product and Service Framework Agreement**

According to the Letter from the Board, the Company has implemented the following internal control procedures to closely monitor and manage new and on-going connected transactions with China Datang Group:

- The Board has approved the estimated annual caps of connected transactions with China Datang Group for each of its business segments for the three years ending 31 December 2025, 2026 and 2027, which were proposed by the Securities and Capital Department (證券資本部) based on the Group's business demands and China Datang Group's project plans and their estimated completion time and progress.
- At the beginning of each calendar year, the Securities and Capital Department will issue an internal notice circulating the annual caps of connected transactions with China Datang Group for that particular year and remind each member and department of the Group to follow internal control procedures for the control of transaction value with China Datang Group in daily business operations.
- The Securities and Capital Department is responsible for maintaining and updating the list of connected persons of the Group. Such list will be circulated to members and relevant departments of the Group on a regular basis.
- Business contracts of the Group are negotiated by the departments in charge which are subject to review and approval by the Connected Transaction Review Department (關聯交易審核部門) before execution. Before submitting any new business contract to the Connected Transaction Review Department, the department in charge is required to check the identity of each party to such contract against the latest list of connected persons of the Group. If any party is identified as a connected person, the department in charge will initiate the special application procedures (“**Connected Transaction Identification Process**”) and submit the required information of the proposed transaction to the Connected Transaction Review Department for review and approval. The Connected Transaction Review Department has adopted stringent control policies in reviewing and approving connected transactions,

including, cross checking relevant information of the projects (e.g. transaction amounts, expected project completion date and progress) against the annual caps. If the proposed transaction is generally consistent with the Connected Transaction Review Department's planning, usually such contract can proceed to execution. If there exists significant difference between the annual caps and the value of the proposed contract, the Connected Transaction Review Department will check against the monthly report provided by the Finance Department for assessment on whether the value of the proposed contract would potentially cause the actual total transaction value to exceed the annual caps of that year. In the case that the proposed contract is expected to potentially cause the total actual transaction value to exceed the annual caps of that year, the Connected Transaction Review Department usually will not approve such contract to proceed to execution. In the case that any proposed transaction may potentially cause the actual total transaction value to exceed the annual caps, if the Connected Transaction Review Department considers such transaction has great commercial value or other significant benefits to the Group, it may escalate to senior management of the Company or the Board for decision making by going through relevant corporate governance procedures in compliance with relevant rules and regulatory requirements. In the event that the Company decides to proceed with the proposed transactions, it would be required to seek Shareholders' approval for revision of the annual caps in accordance with the requirements under the Listing Rules.

- The Securities and Capital Department has set up a monthly reporting system for connected transactions, which requires all members and departments of the Group to report in the beginning of each month, among others, (i) the amount of connected transactions occurred in the previous months; (ii) the accumulative connected transaction amount occurred in that year; and (iii) the expected transaction amount for the rest of the year. If the accumulative connected transaction amount has proportionately exceeded the annual caps of the year in a substantial manner or if the accumulative connected transaction amount occurred together with the expected transaction amount for the rest of the year will exceed the annual caps, the relevant member or department of the Group is required to report to the Securities and Capital Department the reasons for deviation and the proposed rectification measures. Subsequently, the Securities and Capital Department will notify the Connected Transaction Review Department of such deviation or potential deviation by the relevant member or department, and the Connected Transaction Review Department will closely monitor and control the approval of new business contracts for the relevant member or department.
- Furthermore, the Group has adopted relevant assessment standards in its employee performance evaluation system, where each department and employee will be evaluated on their contribution in terms of exploring independent contracts and controlling the amount and ratio of connected transactions, which has direct impact on their remuneration.
- The independent non-executive Directors and the Company's auditors will review annually the enforcement of relevant continuing connected transactions under the Renewed Integrated Product and Service Framework Agreement and provide annual confirmations in accordance with the Listing Rules that relevant continuing connected transactions are conducted in

accordance with the terms of the Renewed Integrated Product and Service Framework Agreement, on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

We have reviewed the latest letter issued by the external auditor of the Company to the Board to report on the continuing connected transactions of the Company in relation to the pricing policies and annual caps of the continuing connected transactions of the Company conducted during the preceding financial year pursuant to the Listing Rules. Accordingly, we consider that the pricing policies and internal control procedures set out above were properly followed and we are of the view that the above measures can effectively manage the potential risks relating to the Renewed Integrated Product and Service Framework Agreement and will ensure that the respective services will be conducted on normal commercial terms or better and are fair and reasonable so far as the Independent Shareholders are concerned.

### **III. RENEWED FINANCIAL SERVICES FRAMEWORK AGREEMENT**

On 11 December 2024, the Company entered into the Renewed Financial Services Framework Agreement with Datang Capital, which renews the financial leasing service and commercial factoring service of the Existing Financial Services Agreement. According to the Renewed Financial Services Framework Agreement, Datang Capital agreed to provide the Company with commercial factoring service, asset securitization service, financial leasing, sales and leaseback service, entrusted loan service, operating lease, brokerage and consultation service in relation to transfer of property rights and assets and bespoke financial service solution (collectively, the “**Financial Framework Services**”). Both parties agreed that such agreement shall be effective from 1 January 2025 and expiring on 31 December 2027. Details of the Renewed Financial Services Framework Agreement are set out as follows.

**Date:** 11 December 2024

**Parties:** (1) Datang Capital; and  
(2) the Company

**Term:** Effective from 1 January 2025 to 31 December 2027

**Principal terms:** According to the Renewed Financial Services Framework Agreement, Datang Capital agreed to provide to the Company with commercial factoring service, asset securitization service, financial leasing, sales and leaseback service, entrusted loan service, operating lease, brokerage and consultation service in relation to transfer of property rights and assets and bespoke financial service solutions.

In respect of the abovementioned transactions under the Renewed Financial Services Framework Agreement, the Company and/or its subsidiaries and Datang Capital and/or its subsidiaries may enter into separate specific contracts in compliance with the Renewed Financial Services Framework Agreement as stipulated in the Renewed Financial Services Framework Agreement.

## **Proposed Annual Caps**

### ***Commercial Factoring Service***

Commercial factoring service refers to a set of financial solutions provided under a factoring agreement between a factor and a supplier, where services of which typically include financing, credit risk management, receivables management and collection services. Under the factoring arrangement, the factor assumes the supplier's accounts receivable and facilitates payments on behalf of the purchaser. In the event of a default by the purchaser, the factor assumes responsibility for payment to the supplier. The proposed annual caps of commercial factoring service under the Renewed Financial Services Framework Agreement (including the maximum daily balance, handling fees and outstanding interest fee) for each of the years ending 31 December 2025, 31 December 2026 and 31 December 2027 are RMB2,000 million, RMB2,000 million and RMB2,000 million respectively. We note that there is no proposed year-on year increment.

### ***Financial Leasing Service***

The proposed annual caps of financial leasing service under the Renewed Financial Services Framework Agreement (including the maximum daily balances of leasing principal, outstanding interest fee and handling fee) for each of the years ending 31 December 2025, 31 December 2026 and 31 December 2027 are RMB1,000 million, RMB1,000 million and RMB1,000 million respectively. We note that there is no proposed year-on-year increment.

### ***Entrusted Loan Service***

Entrusted loan service refers to the trust business in which a trust institution accepts the entrustment of a principal, and within the limits of the entrusted deposit deposited by the principal, grants loans according to the designated target, purpose, term, interest rate and amount as specified by the principal. The trust institution is also responsible for recovering the principal and interest of the loan on behalf of the principal at maturity. The proposed annual caps of entrusted loan service under the Renewed Financial Services Framework Agreement (including the maximum daily balance, handling fees and outstanding interest fee) for each of the three years ending 31 December 2025, 31 December 2026 and 31 December 2027 are RMB1,000 million, RMB1,000 million and RMB1,000 million respectively. We note that there is no proposed year-on-year increment.

As of 30 June 2024, the payable principal and interests of bank loans of the Group due within 1 year amounted to approximately RMB2,007 million in aggregate, and the payable principal and interests of bank loans of the Group due between 1-2 years amounted to approximately RMB941 million in aggregate. According to the Company, the total amount of bank loans due within 1 year and between

1-2 years will be approximately RMB2,948 million. Upon maturity of such bank loans, the Group expects to perform refinancing to cover the abovementioned bank loans as well as the fresh working capital for expanding the business of the Group. As the Group is gradually promoting business transformation with its capital expenditure growing rapidly, it needs to expand financing channels to meet its financing needs.

Based on our discussion with the Company, we understand that the total amount of bank loans due within 1 year and between 1-2 years will be approximately RMB2,948 million which is almost three times the proposed annual cap of RMB1,000 million for each of the three years ending 31 December 2027, therefore, we consider that the Company's plan to obtain lower levels of financing through bank loans and to increase financing through commercial factoring and other products as stated above is in the best interests of the Company and fair and reasonable so far as the Independent Shareholders are concerned and accordingly, we agree that the proposed annual caps are fair and reasonable.

The rest of the services under the Renewed Financial Services Framework Agreement, namely, asset securitization service, sales and leaseback service, operating lease, brokerage and consultation service in relation to transfer of property rights and assets and financial service solution (the **"Other FSFA Financial Services"**) will have proposed annual caps with relevant applicable percentage less than 0.1%.

According to the Letter from the Board, given the above, taking into account (i) the commercial factoring service under the Renewed Financial Services Framework Agreement enables the Group to convert its trade and bill receivables into liquidity, whereas the Group has trade and bill receivables of approximately RMB7,400 million as of 30 June 2024; (ii) the national directives for state-owned enterprises to develop and invest in strategic emerging industries, the financing of which is generally not supported by commercial banks and has to obtain financing through methods, such as, lease financing and entrusted loans; (iii) the abovementioned amount of principal and interests to be repaid upon maturity of the bank loans of the Group; (iv) the expected decreasing amount of bank loans and higher interest rate level to be obtained by the Group in the future for refinancing the abovementioned bank loans and for the expanding business of the Group; and (v) the relevant terms of the Financial Framework Services provided by Datang Capital to accommodate the Group's need for financing, the Group has determined the proposed annual caps of the Financial Framework Services under the Renewed Financial Services Framework Agreement, respectively. We agree that if the increased use of the above services under the Renewed Financial Services Framework Agreement will enable the Group to reduce overall interest cost and also obtain financing for its business expansion which is generally not supported by commercial banks, the Renewed Financial Services Framework Agreement and the transactions contemplated therein is in the interest of the Company and the Independent Shareholders as a whole.



## Historical Transaction Amounts and Utilisation Rates

The historical transaction amounts for each transaction under the Existing Financial Services Framework Agreement for the two years ended 31 December 2022, 2023 and six months ended 30 June 2024, and the historical annual caps and the utilisation rates for the year ended 31 December 2023, being the latest full financial year available, and the six months ended 30 June 2024, are as follows:

Type of transactions	Historical transaction amounts				
	For the	For the	For the	Historical	Historical
	year ended	year ended	six months	annual cap for	annual cap for
	31 December	31 December	30 June	the year ended	the year ending
	2022	2023	2024	31 December 2023 (Utilisation rate %)	31 December 2024 (Annualised utilisation rate %)
					(Note 1)
Financial leasing service	181,989	163,894	166,423	1,060,000	1,060,000
– Actual maximum daily balances of leasing principal, outstanding interest fee and handling fee				(15.5%)	(31.4%)
Commercial factoring service	–	–	–	2,000,000	2,000,000
– Service fee				(0%)	(0%)
Entrusted loan services	–	–	–	1,000,000	1,000,000
– Service fee				(0%)	(0%)

*Note:*

1. The annualised utilisation rate is calculated by taking the actual transaction amounts for the six months ended 30 June 2024 and dividing it by the proportionate six-month portion of the historical annual cap for the year ending 31 December 2024 for illustration purposes.

As shown in the table above, there was no historical transaction amount between the Company and Datang Capital for the commercial factoring service and entrusted loan services under the Existing Financial Services Framework Agreement.

We note that the utilisation rate and the annualised utilisation rate for financial leasing service is approximately 15.5% and 31.4% of the annual cap of the actual maximum daily balance of leasing principal, outstanding interest fee and handling fee for the year ended 31 December 2023 and the year ending 31 December 2024 respectively and we understand that the reasons for the low utilisation rates of the existing annual caps for the commercial factoring service and financial leasing service are that these two financing methods are mainly used as back-up financing methods for the Company to prevent and control capital risks and ensure cash flow security. Since their financing costs might at times be higher than commercial bank loans and open market bonds, they are not the preferred financing methods of the Company. In addition, the Company has maintained strong liquidity over

the past three years, and there have been no circumstances requiring a large-scale utilisation of the back-up financing methods. Despite the relatively low historical utilisation rates, we have discussed with the Company the reasons stated in the above section headed “Proposed Annual Caps”, especially the Group’s plan to convert its trade and bill receivables which amounted to RMB7,400 million as of 30 June 2024 into liquidity which decreases the amount of bank loans with higher interest rate level. In addition, we understand from the Company and agree that maintaining the proposed annual caps for such financing channels of commercial factoring service, financial leasing service and entrusted loan service, which provide financing flexibility to the Group in the event of any market uncertainty in the coming three years and as financing alternative to bank borrowings, are beneficial to the Company and the Shareholders as a whole. Based on these reasons, we consider that it is fair and reasonable for the Company to maintain around the same proposed annual caps for each of the three years ending 31 December 2027 in view of the anticipated financing needs of the Company as set out above.

### **Pricing Policy**

#### **(1) *Commercial factoring service under the Renewed Financial Services Framework Agreement***

The comprehensive interest rate relating to the commercial factoring service provided by Datang Capital to the Group shall be based on fair and reasonable market pricing and normal commercial terms. In particular, the rate shall not be higher than the interest rate level provided by independent third parties to the Group for the same type of service during the same period or the interest rate of the same type of service provided by Datang Capital to third parties with same credit rating.

We consider that the interest rate for commercial factoring services is fair and reasonable at market pricing and shall not be higher than the interest rate provided by independent third parties which is in the interests of the Company and the Independent Shareholders as a whole. However, as there was no commercial factoring transaction during the two years ended 31 December 2023 and the six months ended 30 June 2024, there was no sample available for review in respect of the pricing policy.

#### **(2) *Financial leasing service under the Renewed Financial Services Framework Agreement***

The rent paid by the Group to Datang Capital includes (i) procurement costs; and (ii) interests. The relevant interests are determined based on the benchmark interest rates for loan as implemented by the PBOC.

During the period under review for the two years ended 31 December 2023 and the six months ended 30 June 2024, we note that there was no new contract for financial leasing transactions. In terms of the pricing policy, we consider that the relevant interests for financial leasing services to be determined based on the benchmark interest rates for loan as implemented by the PBOC is fair and reasonable.

We have reviewed the only latest contract for financial leasing transactions which was entered on 22 November 2024 and confirm that the Company had requested for quotations from not less than three other financial institutions in the PRC which are independent of the Company and its connected persons, and comparing them with the benchmark interest rates for term loans issued by the PBOC. We also confirm that the terms are on normal commercial terms, are no less favourable than those available to or from independent third parties, and are in line with the pricing policy of the Renewed Financial Services Framework Agreement.

**(3) *Entrusted loan service under the Renewed Financial Services Framework Agreement***

The entrusted loan interest paid by the Group to Datang Capital includes (i) procurement costs; and (ii) interests. The relevant interests are determined based on the benchmark interest rates for loan as implemented by the PBOC.

We consider that the pricing determined based on the benchmark interest rates for loans implemented by the PBOC is fair and reasonable. However, as there was no entrusted loan transaction during the two years ended 31 December 2023 and the six months ended 30 June 2024, there was no sample available for our review in respect of the pricing policy.

**Reasons for and Benefits of the Transactions under the Renewed Financial Services Framework Agreement**

**(1) *Commercial factoring service and asset securitization service***

The Board considers that the transactions under the commercial factoring service and asset securitization service will help the Company optimize its asset structure, accelerate the efficiency of asset turnover, save costs, improve the efficiency of capital use, broaden the financing channels, and reduce financing costs, which is in line with the overall development strategies of the Company and is in the interests of the Company and the Shareholders as a whole. We agree with the Board that the above pricing policies and potential cost savings and more efficient use of capital are in the interests of the Company and the Independent Shareholders as a whole.

**(2) *Financial leasing service, sales and leaseback service, entrusted loan service and operating lease service***

Datang Capital is a professional financial leasing service, sales and leaseback service, entrusted loan service and operating lease service provider. Based on the needs of business operations, the Group negotiated with Datang Capital in respect of the abovementioned service arrangements on normal commercial terms. We agree with the Company that it is fair and reasonable for the Company for service arrangements to be negotiated on normal commercial terms basis.

(3) ***Brokerage and consultation service in relation to the transfer of property rights and assets and bespoke financial service solution service***

Datang Capital provides professional brokerage and consultation service in relation to the transfer of property rights and assets and financial service solution. Based on the needs of business operations, the Group negotiated with Datang Capital in respect of the abovementioned service arrangements on normal commercial terms. We agree with the Company that it is fair and reasonable for the Company for service arrangements to be negotiated on normal commercial terms basis.

Based on the above, we concur with the Directors of the Company that the terms of the Renewed Financial Services Framework Agreement and the transactions contemplated thereunder are entered into based on arm's length negotiations, in the ordinary and usual course of business of the Group and on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**Relevant Internal Control Measures of Continuing Connected Transactions**

For the Company's internal control procedures that are implemented to closely monitor and manage new and ongoing connected transactions with China Datang Group, please refer to the information provided under the subsection headed "Relevant Internal Control Measures of the Renewed Integrated Product and Service Framework Agreement" as set out in the Letter from the Board.

In addition, the Company has implemented the following internal control procedures to ensure that the relevant interests rates offered by Datang Capital are no less favourable to the Company than those quoted by PBOC or offered to third parties by Datang Capital:

- The financial management department of the Company is responsible for tracking and monitoring the implementation of the continuing connected transactions under the Renewed Financial Services Framework Agreement.
- The financial management department of the Company is responsible for collecting information and monitoring the prices of the continuing connected transactions, assessing the fairness and reasonableness of the terms of the transactions, including the pricing terms, by obtaining information on the relevant transactions and their respective rates and terms from three other financial institutions in the PRC which are independent of the Company and its connected persons, and comparing them with the benchmark interest rates for term loans issued by the PBOC. This is to ensure that the terms are on normal commercial terms, are no less favourable than those available to or from independent third parties, and are in line with the pricing policy of the Renewed Financial Services Framework Agreement.
- In addition, the Company has established a continuing connected transactions management account and arranged for a designated person to manage and maintain it for the purpose of monitoring the amount of the transactions in respect of the proposed annual caps under the

Renewed Financial Services Framework Agreement. For continuing connected transactions that are expected to exceed their annual caps, the Company will re-comply with the necessary approval procedures under the Listing Rules in this regard.

We have reviewed the latest letter issued by the external auditor of the Company to the Board to report on the continuing connected transactions of the Company in relation to the pricing policies and annual caps of the continuing connected transactions of the Company conducted during the preceding financial year pursuant to the Listing Rules. Accordingly, we consider that the pricing policies and internal control procedures set out above were properly followed and we are of the view that the above measures can effectively manage the potential risks relating to the Renewed Financial Services Framework Agreement and will ensure that the respective services will be conducted on normal commercial terms or better and are fair and reasonable so far as the Independent Shareholders are concerned.

#### **IV. DEPOSIT SERVICES UNDER THE RENEWED FINANCIAL SERVICES AGREEMENT**

The Company and Datang Finance entered into the Renewed Financial Services Agreement on 11 December 2024, with a term commencing from 1 January 2025 and ending on 31 December 2027, which renews the services under the Existing Financial Services Agreement. Deposit Services contemplated under the Renewed Financial Services Agreement constitute continuing connected transactions and a major transaction of the Company and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

Details of the Deposit Services contemplated under the Renewed Financial Services Agreement are set out as follows:

**Date:** 11 December 2024

**Parties:** (1) Datang Finance; and  
(2) the Group

**Term:** Effective from 1 January 2025 to 31 December 2027

**Nature of Transaction:** The services to be provided by Datang Finance to the Group include loan services, the Deposit Services, and the Other Financial Services including financial and financing consultation and training services, bill acceptances and discounting services, fund settlement and payment services, entrustment loan and non-financing guarantee services, and financial consultation services for the Group's bond financing. Datang Finance has agreed to provide financial services to the Group at the Company's request or instruction provided that Datang Finance has obtained the relevant approval from the NAFR. Datang Finance shall ensure the stable operation of fund management system to safeguard the fund, and to supervise the credit risk so as to satisfy the payment demands of the Group. The Group, with information of market rates and in view of its own interests, has the discretion to determine whether or not to maintain business relationship with Datang Finance, or to obtain financial services from other financial institutions in the meanwhile.

**Scope of Service:**

- i. loan services;
- ii. Deposit Services; and
- iii. Other Financial Services.

**Pricing Policy:**

Datang Finance has undertaken to provide the Deposit Services to the Group based on the following pricing principles:

Under the same condition, the deposit interest rate provided by Datang Finance to the Group shall not be lower than the interest rate for the same type of deposit placed in national commercial banks in the PRC by the Group.

We consider that the interest rate to be provided by Datang Finance for the Group's deposits shall not be lower than the equivalent deposit rate as provided by national commercial banks in the PRC is fair and reasonable.

**Capital Risk Control Measures**

Pursuant to the Renewed Financial Services Agreement, Datang Finance undertakes to take, inter alia, the following measures to control the capital risks:

- i. Datang Finance will ensure the safe and stable operation of the fund management information system, which has undergone the security test in respect of connection to the online commercial banking and has reached the national security standards for commercial banks. The system is equipped with the model awarded with CA safety certificate to secure the funds of the Group.

- ii. Datang Finance will ensure that it is in strict compliance with the risk monitoring indicators for financing companies issued by the NAFR and that its major regulatory indicators such as gearing ratio, interbank lending ratio and liquidity ratio will also comply with the requirements of the NAFR.
- iii. Any balance in the Group's deposits (after deducting the amount used for making entrusted loans and the loans made to the Group by Datang Finance) will be redeposited into one or more commercial banks in the PRC. The interests for the Group's call deposits will be settled at the negotiated savings interest rate as announced by the PBOC, which is higher than the interest rate for call deposits that the Group currently secures from other PRC commercial banks.

The Company will also adopt, among others, the following internal control and risk management measures to mitigate the financial risks which may be exposed to the Company under the Renewed Financial Services Agreement:

- i. The Company will regularly obtain and review quotes (i.e. savings interest rate, loan interest rate or fee quotes for the other financial services) from at least four other independent financial institutions and the then savings interest rate, negotiated savings interest rate or loan interest rate as published by PBOC.

For the Deposit Services, in the event that the Company notes the then negotiated savings interest rate as announced by the PBOC is less than the then savings interest rate as published by the PBOC or offered by other independent financial institutions in the PRC, the Company will enter into an agreement with Datang Finance to ensure the deposit interest rate of the Deposit Services will be no less favourable than the then savings interest rate as published by the PBOC or offered by any other independent financial institution in the PRC. In the event that the Company notes that the actual deposit interest rate of the Deposit Services is less than the then negotiated savings interest rate as announced by the PBOC or offered by any other independent financial institution in the PRC, the Company will require Datang Finance to compensate the differences to the Company.

We have been provided with three samples of internal memos or records selected by the Company confirming that before entering into any Deposit Service transactions with Datang Finance, the Company has obtained and reviewed quotes for savings interest from at least four other independent financial institutions and the then savings interest rate as published by the PBOC. The samples were selected by the Company on a random basis for the purposes of our review of the Company's pricing policy and since the Company's independent non-executive Directors and auditors will review the transactions in relation to the continuing connected transactions on an annual basis, we have no reason to doubt that such pricing policy is not consistently followed by the Company. We consider that the selected samples are adequate, sufficient, fair and representative in concluding our view that the above pricing policy was properly followed and that the terms of the transactions between the Company and China Datang Group are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the pricing policy is able to ensure that the continuing connected transactions are conducted on normal commercial terms or better and not prejudicial to the

interests of the Company and the Independent Shareholders as a whole. The above three samples represent all the samples reviewed by us on the basis that the samples of transactions selected have covered the major products and/or services of the Company and are representative as an illustration to prove that the pricing terms with the Company's related party are no less favourable than those with the independent third parties.

- ii. Before placing deposit, the Finance Department of the Company will check the outstanding daily balance of the deposits placed with Datang Finance to avoid exceeding the proposed annual caps for the Deposit Services.
- iii. On a monthly basis, the Finance Department of the Company will report to the management of the Company of any updates in relation to the continuing connected transactions. Such report principally covers (1) deposit balance and loan balance as of the end of the previous month; (2) new deposit and loan interest of the previous month; (3) deposit utilisation plan and purposes for this month; and (4) loan repayment of principal and interest of the current month and the source of funds.
- iv. The independent non-executive Directors and the Company's auditors will review annually the enforcement of relevant continuing connected transactions under the Renewed Financial Services Agreement and provide annual confirmations in accordance with the Listing Rules that relevant continuing connected transactions are conducted in accordance with the terms of the Renewed Financial Services Agreement, on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

We concur with the Directors that the above capital risk control measures are adequate to cover the risks involved in relevant continuing connected transactions with Datang Finance, and we consider such will ensure that the terms, especially the interest rates, will be on normal commercial terms or better than that offered by other independent financial institutions.

#### **Proposed annual caps of the Deposit Services and the basis thereof**

The Company estimates that the proposed annual caps for the Deposit Services for the maximum daily deposit balance (including any relevant interest accrued therefrom) with Datang Finance for each of the years ending 31 December 2025, 2026 and 2027 is RMB4,000 million, after taking into account of the following factors:

1. The balance of cash and cash equivalents of the Group amounted to approximately RMB1,539.0 million as of 30 June 2024;
2. The Company has applied to the National Association of Financial Market Institutional Investors for registration and issuance of super short-term commercial paper of no more than RMB3,000 million. The balance of deposit is expected to be close to the proposed annual caps for the Deposit Services of RMB4,000 million if the Company issues one-off super short-term commercial paper of more than RMB2,400 million and temporarily places all the proceeds into the Group's deposit account opened at Datang Finance; and



3. The balance of trade, bills receivables and contract assets of the Group amounted to approximately RMB7,648.9 million as of 30 June 2024. The balance of deposit may also experience significant increase within a short term and will be close to the proposed annual caps for the Deposit Services of RMB4,000 million if the Group recovers a large amount of trade, bills receivables and contract assets within a short term and places the receivables and contract assets into the Group's deposit account opened at Datang Finance.

We have reviewed the Company's circular dated 18 September 2023, in respect of, inter alia, the proposed issuance of super short-term commercial paper of up to RMB3 billion and note that the proceeds raised was intended to replenish the working capital and project investments and repay debts which fall due and payable. Shareholder's approval for the super short-term commercial paper was obtained at the Company's extraordinary general meeting on 20 December 2023.

Due to the balance of cash and cash equivalents of the Group amounted to approximately RMB1,524.0 million as of 30 June 2024, the issuance and short-term placement of the RMB3 billion of super short-term commercial paper and the timing of recovery of the trade, bills receivables and contract assets, the total short-term cash balance of the Company can be as high as over RMB12.1 billion, which is more than 3 times above the proposed annual cap of RMB4 billion.

In view of the above, we concur with the Directors that the proposed annual caps for the Deposit Services for the maximum daily deposit balance with Datang Finance of RMB4,000 million for each of the three years ending 31 December 2027 is fair and reasonable.

## Historical Transaction Amounts and Utilisation Rates

The Renewed Financial Services Agreement renews the loan services, the Deposit Services and the Other Financial Services under the Existing Financial Services Agreement. The historical transaction amounts of the Deposit Services under the Existing Financial Services Agreement for the years ended 31 December 2022, 2023 and six months ended 30 June 2024, and the historical annual caps and the utilisation rates for the year ended 31 December 2023, being the latest full financial year available, and the six months ended 30 June 2024, are as follows:

	Historical transaction amounts			Historical	Historical
	For the	For the	For the	annual cap for	annual cap for
	year ended	year ended	six months	the year ended	the year ending
	31 December	31 December	ended 30 June	31 December	31 December
	2022	2023	2024	2023	2024
				(Utilisation	(Annualised
				rate %)	utilisation
					rate %)
(RMB'000)					
Deposit Services	1,304,390	1,717,713	1,740,322	4,000,000	4,000,000
– Actual maximum daily deposit balance				(42.9%)	(87.0%)
(including any relevant interest accrued therefrom)					(Note 1)

*Note:*

1. The annualised utilisation rate is calculated by taking the actual transaction amounts for the six months ended 30 June 2024 and dividing it by the proportionate six-month portion of the historical annual cap for the year ending 31 December 2024 for illustration purposes.

We note that the utilisation rate and the annualised utilisation rate represents approximately 42.9% and 87.0% of the existing annual cap for the year ended 31 December 2023 and the year ending 31 December 2024 respectively and we understand that the reasons for the low utilisation rate of the annual cap for Deposit Services for the year ended 31 December 2023 are that the Company's accounts receivable recovery has been satisfactory in recent years, its cash flow position has continued to improve, and there have been no large-scale capital expenditure projects. Therefore, no financing activities such as bond issuance of a large amount have been undertaken, and no instantaneous substantial increase in the deposit balance has occurred. In view of the relatively high annualised utilisation rate as seen for the year ending 31 December 2024, we have discussed with the Company the reasons for maintaining the same proposed annual cap of RMB4 billion for each of the three years ending 31 December 2027 and consider such proposed annual caps are fair and reasonable in view of the anticipated financing needs of the Company as set out above.

### **Reasons for and Benefits of Entering into the Renewed Financial Services Agreement**

The Deposit Services will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms similar to or even more favourable than those available to the Company from independent third parties in the PRC. Accordingly, we agree that such transactions are beneficial to the Group and furthermore, the Group can earn interests or enjoy benefits through such transactions at terms no less favourable than that offered by independent third parties.

Furthermore, due to the long-term relationship between the Group and China Datang Group, the Directors consider that it is beneficial to the Company to enter into continuing connected transactions with companies affiliated to China Datang. They are familiar with the Group's operations and requirement on the products and services, and will be able to respond more quickly and in a more cost efficient manner to the requirements that the Group may have as compared with other financial institutions unrelated to China Datang Group.

In addition, as the customers of Datang Finance are limited to entities affiliated to China Datang and its subsidiaries under applicable laws and regulations, it reduces default risk and liquidity risk that Datang Finance may otherwise be exposed to if its customers include entities unrelated to China Datang. Such risk control measures adopted by Datang Finance are adequate to mitigate default risk and liquidity risk involved in receiving financial services from Datang Finance. Security of capital of the Group may be undermined in case of breach of contract or illiquidity of Datang Finance as the Group plans to place cash into its deposit account opened at Datang Finance. As such, Datang Finance's effective control over the breach of contract and liquidity risk will be conducive to the reduction of the Group's capital risk.

We concur with the Directors that the terms of the Deposit Services under the Renewed Financial Services Agreement and the proposed annual caps are entered into based on arm's length negotiations, on normal commercial terms, in the ordinary and usual course of business, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Relevant Internal Control Measures of the Deposit Services**

For the Company's internal control measures that are implemented to closely monitor and manage new and ongoing connected transactions with China Datang Group, please refer to the information provided under the subsection "Relevant Internal Control Measures of the Renewed Integrated Product and Service Framework Agreement" as set out in the Letter from the Board.

We have reviewed the latest letter issued by the external auditor of the Company to the Board to report on the continuing connected transactions of the Company in relation to the pricing policies and annual caps of the continuing connected transactions of the Company conducted during the preceding financial year pursuant to the Listing Rules. Accordingly, we consider that the pricing policies and internal control procedures set out above were properly followed and we are of the view that the above measures can effectively manage the potential risks relating to the Deposit Services under the Renewed Financial Services Agreement and will ensure that the Deposit Services will be conducted on normal commercial terms or better and are fair and reasonable so far as the Independent Shareholders are concerned

## RECOMMENDATION

Having considered the principal factors and reasons referred to above, in particular:

- (1) the pricing principles and internal control measures under the Renewed Integrated Product and Service Framework Agreement, the Renewed Financial Services Framework Agreement and the Deposit Services under the Renewed Financial Services Agreement as set out above;
- (2) the reasons for the respective proposed annual caps of the Renewed Integrated Product and Service Framework Agreement, the Renewed Financial Services Framework Agreement and the Deposit Services under the Renewed Financial Services Agreement as set out above; and
- (3) the benefits brought about to the Group by the respective services contemplated under the Renewed Integrated Product and Service Framework Agreement, the Renewed Financial Services Framework Agreement and the Deposit Services under the Renewed Financial Services Agreement as set out above;

we are of the opinion that the terms of the Renewed Integrated Product and Service Framework Agreement, the Renewed Financial Services Framework Agreement and the Deposit Services under the Renewed Financial Services Agreement are in the ordinary and usual course of business of the Group, are conducted on normal commercial terms or better, and are fair and reasonable so far as the Independent Shareholders are concerned, and the said terms and the Continuing Connected Transactions are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to approve the Continuing Connected Transactions under the Renewed Integrated Product and Service Framework Agreement, the Renewed Financial Services Framework Agreement and the Deposit Services under the Renewed Financial Services Agreement together with the proposed annual caps applicable thereto at the 2024 Third EGM.

Yours faithfully,  
For and on behalf of  
**Trinity Corporate Finance Limited**



**Joanne Pong**  
*Responsible Officer*