MESSIS 大有融資

24 January 2025

To: The Independent Board Committee and The Independent Shareholders

Dear Sirs and Madams,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION;
(2) THE ISSUE OF CONSIDERATION SHARES AND CONVERSION SHARES UNDER SPECIFIC MANDATE;
AND
(3) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE LOANS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the Agreement and the transaction contemplated thereunder, details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 24 January 2025 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

The Acquisition

As set out in the "Letter from the Board", on 9 January 2025 (after trading hours), the Purchaser (being the Company) and the Seller (being a company ultimately wholly owned by the Zhu Family Trust) entered into the Sale and Purchase Agreement pursuant to which the Purchaser has conditionally agreed to acquire and the Seller has conditionally agreed to sell the Sale Share, being the entire issued share capital of the Target Company, at the Consideration of RMB325 million (approximately HK$345.15 million). The Consideration shall be satisfied by the Purchaser by way of cash, by way of allotment and issue of Consideration Shares and by way of issuance of Convertible Bonds.

It is proposed that the Directors be given a Specific Mandate to allot and issue the Consideration Shares and the Conversion Shares pursuant to the Sale and Purchase Agreement.

Upon Completion, the Target Company will become a direct wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company.

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The Loan Agreements

Prior to the date of the Announcement, GCL Petroleum (being an indirect non wholly-owned subsidiary of the Target Company) had entered into the Loan Agreement 1 and the Loan Agreement 2 with Jiangsu Xiexin and Taicang Harbour (both being companies ultimately non wholly-owned by the Zhu Family Trust) respectively, pursuant to which GCL Petroleum has provided the Loan 1 and the Loan 2 to Jiangsu Xiexin and Taicang Harbour respectively, subject to the terms and conditions contained therein.

Upon Completion, GCL Petroleum will become an indirect non wholly-owned subsidiary of the Company and will continue to provide the Loan 1 and the Loan 2 to Jiangsu Xiexin and Taicang Harbour respectively, pursuant to the terms and conditions contained in the Loan Agreement 1 and the Loan Agreement 2.

Listing Rules Implications

As the highest applicable percentage ratio in respect of the Acquisition under Rule 14.07 of the Listing Rules exceeds 25% but all of them fall below 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to reporting, announcement, circular and Shareholders' approval requirements.

As at the Latest Practicable Date, (i) the Seller is indirectly wholly-owned by Asia Pacific Energy Fund which in turn is ultimately owned by the Zhu Family Trust and (ii) Jiangsu Xiexin and Taicang Harbour are indirect non wholly-owned subsidiaries of Asia Pacific Energy Fund which in turn are ultimately owned by the Zhu Family Trust. Given that Mr. Zhu Gongshan (an executive Director) and his family (including Mr. Zhu Yufeng, an executive Director and son of Mr. Zhu Gongshan) are beneficiaries of the Zhu Family Trust, the Seller, Jiangsu Xiexin and Taicang Harbour are connected persons of the Company under the Listing Rules.

Accordingly, the Acquisition constitutes a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to reporting, announcement, circular and Independent Shareholders' approval requirements. Upon Completion, GCL Petroleum will become an indirect non wholly-owned subsidiary of the Company and the continuation of the Loans provided by the Group to Jiangsu Xiexin and Taicang Harbour will constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Further, as the highest applicable percentage ratio in respect of the Loan Agreements under Rule 14.07 of the Listing Rules exceeds 25%, the Loan Agreements constitute a major transaction and a connected transaction of the Company. Therefore, the Loan Agreements are subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

Mr. Zhu Gongshan, Mr. Zhu Yufeng, Mr. Wang Dong, Mr. Gu Zengcai, Ms. Sun Wei, Mr. Yeung Man Chung, Charles and Mr. Fang Jiancai, being the Directors, are also executives of companies controlled by the Zhu Family Concert Group. The above-named Directors, present at the relevant Board meeting, were not counted towards the quorum and abstained from voting on the relevant Board resolutions to approve, among other things, the Sale and Purchase Agreement and the Loan Agreements and the transactions contemplated thereunder and the grant of the Specific Mandate.

The Zhu Family Group (comprising Happy Genius Holdings Limited, Highexcel Investments Limited, Get Famous Investments Limited, Dongsheng Photovoltaic Technology (Hong Kong) Limited, Elite Time Global Limited, Mr. Wang Dong and Ms. Sun Wei holding approximately 6.84%, 0.42%, 0.01%, 6.80%, 6.20%, 0.001% and 0.01% of the total issued share capital of the Company respectively as at the Latest Practicable Date (i.e. 95,801,506 Shares, 5,833,394 Shares, 209,880 Shares, 95,298,915 Shares, 86,878,864 Shares, 11,496 Shares and 90,995 Shares respectively) will abstain from voting at the SGM in respect of the resolution(s) approving, among other things, (i) the Sale and Purchase Agreement, the Loan Agreements and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate.

Save as disclosed above, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no other Shareholder or any of its associates (as defined in the Listing Rules) has a material interest in the Sale and Purchase Agreement, the Loan Agreements and the transactions contemplated thereunder or the grant of the Specific Mandate, and therefore no other Shareholder would be required to abstain from voting on the relevant resolutions to be proposed at the SGM.

The Independent Board Committee comprising Mr. Lee Conway Kong Wai, Mr. Wang Yanguo, Dr. Chen Ying and Mr. Cai Xianhe, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in connection with, among other things, the transactions contemplated under the Sale and Purchase Agreement, the Loan Agreements, and the grant of the Specific Mandate.

Since Ms. Sun Wei, Mr. Yeung Man Chung, Charles and Mr. Fang Jiancai, who are non-executive Directors, are executives of the companies controlled by the Zhu Family Concert Group, they are deemed to have interest in the Acquisition. Thus, they are not appointed as members in the Independent Board Committee in accordance with Rule 2.8 of the Takeovers Code in order to avoid any perceived conflict of interest.

We, Messis Capital Limited, has been appointed as an independent financial adviser, to advise the Independent Board Committee and the Independent Shareholders in connection with, among other things, the Sale and Purchase Agreement and the Loan Agreements and the transactions contemplated thereunder, the grant of the Specific Mandate in accordance with the requirements of the Takeovers Code.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as the independent financial adviser to the independent board committee of the Company for the very substantial disposal and connected transaction and continuing connected transaction under Rule 14A.60 of the Listing Rules whose circular was dated 15 November 2023.

Apart from normal professional fees paid or payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent in accordance with Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to give independent advices in respect of the Sale and Purchase Agreement and the Loan Agreements and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Group and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Group and/or the Directors and/or its senior management staff (the "**Management**"). We have assumed that all statements, information and representations provided by the Directors and the Management, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the SGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in this Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its adviser and/or the Directors, which have been provided to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable and there are no reasons to doubt the accuracy and reliability of such public information.

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

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group or the Target Company.

PRINCIPAL FACTORS AND REASON CONSIDERED

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1. Information of the Group

The Group is principally engaged in the sale of electricity, development, construction, operation and management of solar power plants and sale of liquefied natural gas and related products.

1.1 Financial results for the six months ended 30 June 2024

Set out below is a summary of the consolidated statement of profit and loss of the Group for the six months ended 30 June 2024 and 2023, respectively, and the consolidated statement of financial position of the Group as at 30 June 2024 and 31 December 2023, respectively, which were extracted from interim results announcement of the Group for the six months ended 30 June 2024 (the "**2024 Interim Results Announcement**"):

	For the six months ended 30 June	
	2024	**2023**
	RMB$'000	*RMB$'000*
	(unaudited)	*(unaudited)*
Revenue	496,473	422,764
– Recognised at a point in time:	359,069	357,261
(a) Sales of electricity	41,854	151,293
(b) Tariff adjustments	2,386	166,500
(c) Solar related supporting services income	8,285	39,468
(d) LNG business related income	306,544	–
– Recognised over time:	137,404	65,503
(a) Operation and management services income	137,404	65,503

	For the six months ended 30 June	
	2024	**2023**
	RMB$'000	*RMB$'000*
	(unaudited)	*(unaudited)*
Gross Profit	70,230	195,476
Other gains and losses, net	(96)	(118,042)
Impairment loss under expected credit loss model, net	(70,849)	–
Selling and distribution expenses	(2,095)	–
Research and development expenses	(10,802)	–
Finance costs	(39,426)	(193,073)
Loss for the period	(74,352)	(115,680)

The Group recorded the total revenue of approximately RMB496.5 million for the six months ended 30 June 2024, representing an increase of approximately 17.4% comparing with the total revenue of approximately RMB422.8 million for the six months ended 30 June 2023, which was primarily due to (i) the increase LNG business related income from nil to approximately RMB306.5 million; and (ii) the increase in operation and management services income by approximately 1.1 times from approximately RMB65.5 million to RMB137.4 million; and was partially offset by (i) the decrease in sale of electricity by 72.8% from RMB151.3 million to RMB41.2 million; and (ii) the decrease in solar related supporting services income by 77.3% from approximately RMB36.5 million to approximately RMB8.3 million during the same period.

The Group's loss for the period decreased from approximately RMB115.7 million to approximately RMB74.4 million, which was primarily due to the decrease in the finance costs from approximately RMB193.1 million to approximately RMB39.4 million; and was partially offset by (i) the decrease in gross profit from approximately RMB195.8 million to approximately RMB70.2 million; and (ii) the increase in research and development expenses from nil to approximately RMB10.8 million during the same period.

	As at 30 June 2024	As at 31 December 2023
	RMB'million	*RMB'million*
	(Unaudited)	*(Audited)*
Bank balances and cash	400.0	555.4
Total assets	6,442.9	6,506.3
Total liabilities	1,467.8	1,511.6
Net assets attributable to the Shareholders	1,935.8	2,055.4

The total assets decreased from approximately HK$6,506.3 million as at 31 December 2023 to approximately HK$6,442.9 million as at 30 June 2024, of which the bank balances and cash decreased from approximately HK$555.4 million as at 30 December 2023 to approximately HK$400.0 million as at 30 June 2024.

The total liabilities of the Group decreased from approximately HK$1,511.6 million as at 31 December 2023 to approximately HK$1,467.8 million as at 30 June 2024, representing a decrease of approximately HK$3.0%. The gearing ratio calculated by the loans (including the loan from a related company and bank and other borrowings) to the sum of capital and loans was approximately 2.7% and 2.6% as at 31 December 2023 and 30 June 2023, respectively. The Group's net assets attributable to the Shareholders decreased from approximately HK$2,055.4 million as at 31 December 2023 to approximately HK$1,935.8 million as at 30 June 2024.

1.2 For the financial year ended 31 December 2023

Set out below is a summary of the consolidated financial information of the Group for the year ended 31 December 2022 and 2023, respectively which were extracted from the annual reports of the Group for the financial year ended 31 December 2023 (the "**2023 Annual Report**"):

	For the year ended 31 December	
	2023	**2022**
	RMB'000	*RMB'000*
Revenue	831,520	929,057
Sales of electricity and tariff adjustments	578,208	758,461
Operation and management services income	227,948	151,991
Solar related supporting services income	16,747	18,605
LNG business related income	8,617	–
Gross Profit	380,790	451,068
Other income	82,753	149,488
Other gains and losses, net	(414,599)	(104,526)
Impairment loss on expected credit loss model, net of reversal	(155,565)	(386,156)
Impairment losses on property, plant and equipment and right-of-use assets	(85,943)	(358,968)
Finance costs	(443,883)	(571,543)
Loss for the year	(964,010)	(1,288,381)

The Group recorded the total revenue of approximately HK$831.5 million for the year ended 31 December 2023, representing a decrease of approximately 10.5% as comparing with the revenue of approximately HK$929.1 million recorded for the year ended 31 December 2022, which was mainly due to the decrease in sales of electricity and tariff adjustments from HK$758.5 million to HK$578.2 million, and partially offset by the increase in operation and management services income from approximately HK$152.0 million to approximately HK$227.9 million and increase in LNG business related income from nil to HK$8.6 million during the same period.

The Group's loss for the year decreased from approximately HK$1,288.4 million for the year ended 31 December 2022 to HK$964.0 million for the year ended 31 December 2023, which was primarily due to (i) the decrease in the impairment loss on expected credit loss model, net of reversal, from approximately HK$386.2 million to approximately HK$155.6 million; (ii) the decrease in impairment losses on property, plant and equipment and right-of-use assets from approximately HK$359.0 million to approximately HK$85.9 million; and (iii) decrease in finance costs from approximately HK$571.5 million to approximately HK$443.9 million during the same period.

	As at 31 December	
	2023	**2022**
	RMB million	*RMB million*
Bank balances and cash	555.4	797.1
Total assets	6,506.3	12,163.6
Total liabilities	1,511.6	5,993.1
Net assets attributable to the Shareholders	2,055.4	3,204.7

The total assets of the Group decreased from approximately HK$12,163.6 million as at 31 December 2022 to approximately HK$6,506.3 million as at 31 December 2023, which was primarily due to (i) the decrease in property, plant and equipment from approximately RMB4,468.1 million as at 31 December 2022 to approximately RMB903.9 million as at 31 December 2023; and (ii) the decrease in trade and other receivables from approximately HK$3,993.9 million as at 31 December 2022 to approximately HK$1,008.0 million as at 31 December 2023. The cash and bank balances was approximately HK797.1 million as at 31 December 2022 and approximately HK$555.4 million as at 31 December 2023 respectively.

The total liabilities of the Group decreased from approximately HK$5,993.1 million as at 31 December 2022 to approximately HK$1,511.6 million as at 31 December 2023, which was mainly due to decreased in the bank borrowings from approximately RMB2,519 million as at 31 December 2022 to approximately RMB409.8 million as at 31 December 2023.

The net assets attributable to the Shareholders of the Group decreased from approximately RMB3,204.7 million as at 31 December 2022 to approximately RMB2,055.4 million as at 31 December 2023, which was attributable to the higher decrease in the total assets than the total liabilities from 31 December 2022 to 31 December 2023.

2. **Background information of the Seller and the Target Company**

The Seller is an investment holding company incorporated under the laws of Hong Kong with limited liability, the entire issued share capital of which is owned by Asia Pacific Energy Fund, which in turn is ultimately owned by the Zhu Family Trust.

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The Target Group, through its indirect non-wholly owned subsidiary, GCL Petroleum, invested in Rudong LNG Receiving Terminal Project and Maoming LNG Receiving Terminal Project.

Set out below is a summary of the financial information in the audited consolidated financial statements of the Target Company for the two financial years ended 31 December 2022 and 31 December 2023 and the seven months ended 31 July 2024 prepared in accordance with IFRS and audited by Crowe (HK) CPA Limited:

	For the year ended 31 December 2022 *(RMB'000)*	For the year ended 31 December 2023 *(RMB'000)*	For the seven months ended 31 July 2024 *(RMB'000)* *(Note)*
Net (loss)/profit before taxation	(8,856)	(15,470)	9,153
Net (loss)/profit after taxation	(8,856)	(15,470)	9,153

Note:

The net profit of approximately RMB9.2 million before and after taxation incurred for the seven months ended 31 July 2024 mainly arose from gain on extinguishment of loan to a related party due to changes of loans terms, which was included in other gains and losses, and was non-cash in nature

The audited consolidated net assets value of the Target Company (prepared in accordance with IFRS) was approximately RMB359 million as at 31 July 2024.

3. **Reasons for and benefits of the Acquisition**

According to the "Letter from the Board" contained in the Circular, the Group has been operating the business of solar power plant since 2014, and in early 2022, in order to timely seize the perfect opportunity arising from the overall adjustment of development landscape in the natural gas industry, the Group has made a comprehensive, clear and objective analysis, study and judgement of the natural gas development domestically and abroad and maintained sound communication with POLY-GCL Petroleum Group Holdings Limited and actively explored the cooperation opportunities in the LNG business. Since 2023, the Group has been developing a team of LNG professionals who have high qualifications and deep accumulation of resources in the energy industry to lead the Group in promoting the diversified development of the LNG business and accelerating the marketization of LNG trade of the Group thereby increasing the Group's revenue.

The Acquisition is a natural progression to the existing LNG business of the Company. The LNG Receiving Terminal Projects can complement the Group's LNG trading business by offering LNG storage and processing capacity to stock up the inventory in the off-season and meet the market requirement in the peak-season. The LNG receiving terminals could allow the Group to have access to LNG storage capacity to meet the obligations of the existing long-term LNG procurement contracts when needed which could lower the storage costs for LNG and increase the Group's bargaining power on sourcing the LNG from suppliers and traders. The LNG receiving terminals could also enable the Group to procure LNG from international market, thereby increase the diversity of its natural gas supply sources, and hence provide a stable and reliable support to expand its downstream business.

With the capacity offered by the LNG Receiving Terminal Project, Rudong LNG Company which is a joint venture indirectly owned as to 51% by the Target Company, can lease the LNG receiving terminal to other energy companies by signing terminal use agreements and collect processing fees and storage charges. Upon completion of the Acquisition, as a shareholder of Rudong LNG Company through the Target Company, the Group can also utilise these storage services at fair or preferential rates, enhancing its price competitiveness in downstream markets. This arrangement optimises capital efficiency through the joint venture structure while sharing operational costs and responsibilities with the joint venture partner.

Having considered the above factors, the Directors (other than the independent nonexecutive Directors who will form their view after considering the advice from the Independent Financial Adviser) are of the view that, though the Acquisition is not in the ordinary and usual course of business of the Group, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Our view

We have reviewed the reasons and benefits of the acquisition as presented in the "Letter from the Board", and it is noted that the Company has included the LNG business as a potential opportunity to further enhance the Company's revenue after vigilant study and sufficient market research since 2022 and recruited a team of LNG professionals since 2023. In such way, the Acquisition, with the benefits upon the completion of such Acquisition as assessed by the Company and its Directors, is in line with the Company's business strategy.

Referred to the financial information of the Group as presented and analysed above, it is noted that the Group has gained a benefit from the LNG business which contributed approximately 61.8% of the total revenue of the Group for the six months ended 30 June 2024.

It is reasonable to foresee that, upon the completion of the Acquisition, the Company, signaling itself with the stake of the Target Company, is able to utilise the Target Company's name and the reputation when sourcing more business opportunities. Further, the current LNG Receiving Terminal Projects can complete the Company's competitiveness by equipping it with strong storage capacity to not only stock up inventory taking into account the surrounding subsisting circumstances including but not limited to the seasonality and the favourable prices if any, but also build up a stable supply mechanism to its downstream business.

We are of the view that it is reasonable to conclude that such Acquisition can further the aim of the Company to enhance the revenue from the LNG business and progress to the integration stage of LNG business.

Further, it is mentioned that the joint venture structure of Rudong LNG Company enables the Company to enjoy the operational costs and responsibilities sharing by the joint venture partner. We are of the view that such ground is reasonable given that the Company has stepped into the LNG business in recent period, by striking balance, it may be a good start point to leverage the available resources as much as possible for mitigating the risks. Such benefit shall outweigh the fact that part of the profit of the joint venture is also shared out.

4. **The Sale and Purchase Agreement**

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date: 9 January 2025

Parties: (1) the Company, as the purchaser; and

(2) Golden Concord Group, as the seller.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to purchase and the Seller has conditionally agreed to sell, the Sale Share, being the entire issued share capital of the Target Company.

Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration payable by the Purchaser for the Sale Share is RMB325 million (approximately HK$345.15 million) and shall be satisfied by the Purchaser on the Completion Date in the following manner:

(i) as to RMB200 million (approximately HK$212.40 million) to be settled by way of cash;

(ii) as to RMB65 million (approximately HK$69.03 million) to be settled by way of allotment and issue of Consideration Shares at the issue price of HK$0.45 per Consideration Share; and

(iii) as to HK$63.72 million (approximately RMB60 million) to be settled by way of issuance of the Convertible Bonds.

The Consideration was arrived at after arm's length negotiation between the Purchaser and the Seller, after taking into account, among others, (i) the preliminary valuation of the 100% equity interest of the Target Company of RMB530 million as at 31 July 2024 prepared by the Independent Valuer, using the market approach, after deducting the present value of the Unpaid Capital (as defined below) of approximately RMB204.7 million to be paid up by the Purchaser; (ii) the prospects of the businesses operated by the Target Group; and (iii) the reasons and benefits of the Acquisition as stated under the paragraph headed "Reasons for and benefits of the Acquisition" under the "Letter from the Board" to the Circular.

The major assets of the Target Company is its 48% equity interest in GCL Petroleum which is engaged in the investment in the LNG Receiving Terminal Projects. As at the Latest Practicable Date, the registered capital of GCL Petroleum is RMB800 million, of which RMB246.5 million (the "**Unpaid Capital**") has not yet been paid by the Seller and RMB47.5 million has not yet been paid up by Shanghai Qixun in respect of their equity interests in GCL Petroleum respectively. According to the articles of association of GCL Petroleum, both the Seller and Shanghai Qixun are required to contribute the respective unpaid registered capital to GCL Petroleum by 30 June 2029. Pursuant to the Sale and Purchase Agreement, subsequent to the Completion, the Purchaser has an obligation to contribute the Unpaid Capital to GCL Petroleum by 30 June 2029 in accordance with the articles of association of GCL Petroleum.

Upon receipt of the remaining balance of the unpaid registered capital from its shareholders, it is expected that GCL Petroleum will apply such sum towards the development of the LNG Receiving Terminal Projects, including a possible expansion of the storage capacity of the facilities of the Rudong LNG Receiving Terminal Project and further development of the Maoming LNG Receiving Terminal Project, depending on the then levels of utilisation of the respective projects and assuming the government's approval for the Maoming LNG Receiving Terminal Project having been obtained.

Our view on the valuation of the Target Company

In accessing the fairness and reasonableness of the consideration of the Acquisition in the amount of RMB325 million, we have obtained and reviewed (i) the audited consolidated financial statements of the Target Company for the two financial years ended 31 December 2022 and 31 December 2023 and the seven months ended 31 July 2024 prepared in accordance with IFRS and audited by Crowe (HK) CPA Limited; and (ii) valuation report of the Target Company issued by the Independent Valuer contained in the Circular.

Valuation approaches

The Independent Valuer has adopted the summation method under the cost approach, which is suitable for a valuation subject when its value is primarily a factor of the value of the valuation subject's holding assets and liabilities, to estimate the value of the equity interest of the Target Company as at 31 July 2024 (the "**Valuation Date**"). The summation method estimates the value of the equity interest of the Target Company based on the following four major components: (i) 51% equity interest in the Rudong LNG Company; (ii) 48% equity interest in the Maoming Bohe; (iii) the Unpaid Capital; and (iv) the other assets and liabilities of GCL Petroleum.

Our view

We are of the view that, for an acquisition target with the acquisition purpose of enhancing future profitability of the Group, it is fair and reasonable to assess the Target Company's substantive assets, liabilities (if any) and profitability potential of such acquisition target before making judgment to adopt the most appropriate valuation approach. Hence, our emphasis of the Valuation will base on the substantive elements of the companies under valuation.

It is noted from the "Letter from the Board" that the major assets of the Target Company comprises its 48% equity interest in GCL Petroleum, which is investing in the LNG Receiving Terminal Projects. We have obtained and reviewed the shareholding structure of the Target Company and the Valuation Report, which unanimously presented the discussion between the management of the Target Company and the Independent Valuer that other than GCL Petroleum's holding of 51% equity interest in the Rudong LNG Company and 48% equity interest in Maoming Bohe as at the Valuation Date, the Target Company, which holds 48% equity interest in GCL Petroleum, did not have other operation.

As the substantive operation and substantive assets of the Target Company were under GCL Petroleum, which holds 51% equity interest of Rudong LNG Company and 48% equity interest of Maoming Bohe, a non-subsidiary of GCL Petroleum, it is fair and reasonable to conduct the valuation separately and use the summation method to aggregate the valuation of the 51% equity interest of Rudong LNG Company and 48% of Maoming Bohe as at the Valuation Date, and at the meantime, taking into account the existing material assets, liabilities and the aforementioned Unpaid Capital which were committed by the Seller and Shanghai Qixun to insert into GCL Petroleum. Upon the Completion, the Purchaser will inherit the obligation of the Seller to pay up the unpaid registered capital of RMB246.5 million by 30 June 2029.

If Valuation adopts the income approach or market approach directly, it is less likely to generate a fair and reasonable valuation result of the 48% equity interest of Maoming Bohe as at the Valuation Date whose LNG Receiving Terminal Project is still in research phrase. Applying such approach is one sided indeed and deviates from the purpose of the Valuation.

In light of above, we are of the view that such summation approach is fair and reasonable given it estimates the value of the equity interest of the Target Company by focusing on the substance of its valuable interests and/or net assets after considering the existing circumstances of such material interests.

(i) 51% Equity Interest in the Rudong LNG Company

Approach and the Multiple as adopted by the Independent Valuer

The Independent Valuer is of the view that the market approach is the most appropriate valuation approach for the valuation of the equity value of the Rudong LNG Company, given the construction progress of the LNG terminal of the Rudong LNG Company reaches around 90% completion and the approvals from the government have been granted, these materially reduced risks will likely increase the value of the Rudong LNG Company's project. It is important to note that this increase in value cannot be fully captured by the cost approach alone.

Since the LNG Terminal held by the Rudong LNG Company is under the construction phase and has not generated any revenue in the past 12 months, the multiples involving income statement items such as P/E Multiple, P/S Multiple, EV/EBIT Multiple, EV/EBITDA Multiple, and EV/Sales Multiple are not applicable for valuation of the Rudong LNG Company. As an LNG terminal project requires intensive capital expenditures, the value of a company in this industry is highly dependent on its net book value. Hence, the P/B multiple which is mainly driven by the book value of subject company in the valuation is considered to be the most appropriate multiple.

Our view

We are of the view that the rationale that the Independent Valuer to adopt the market approach and the P/B Multiple is straight forward, rational, and reasonable given the P/E Multiple, P/S Multiple, EV/EBIT Multiple, EV/EBITDA Multiple, and EV/Sales Multiple will only be considered if such valuation target has generated revenue in a reasonable long duration for comparable valuation analysis with other comparable companies (if any). Since the Rudong LNG Receiving Terminal has not completed its construction progress, it did not record any revenue as of the Latest Practicable Date, which points out that the aforementioned multiples whose denominator relating to the input from revenue element are not applicable.

For the P/B Multiple, it is generally accepted as a valuation approach for asset-intense companies' valuation, and, further, captures the substantive and operative importance of the net book value to a LNG terminal project company, which is fair and eligible to be adopted in the valuation of Rudong LNG Company.

Selection Criteria by the Independent Valuer

According to the Valuation Report, the guideline public company method is not adopted as there are not enough publicly listed companies of similar businesses (i.e. only holding LNG ports in the PRC that are under construction) that could provide a reasonable valuation benchmark. The guideline transaction method requires the research of comparable transactions with similar nature as the Rudong LNG Company. As there are enough recent market transactions that could provide a reasonable valuation benchmark, the market value of equity interest in the Rudong LNG Company was developed through the guideline transaction method in the valuation exercise.

Selection criteria for market comparable transactions include:

- the subject companies of the comparable transactions mainly engage in the construction and management of an LNG receiving terminal in the PRC (i.e. within the same industry as the Rudong LNG Company);
- the availability of sufficient operational and financial data, including the price-to-book ("**P/B**") multiple, on the subject companies as at the Valuation Date; and
- the comparable transactions were announced within 3 years before the Valuation Date

The Independent Valuer has identified an exhaustive list of comparable transactions of respective acquirers and target companies that satisfy the above-mentioned selection criteria.

Our view

We have reviewed the selection criteria by the Independent Valuer and considered that such criteria are well-grounded by considering the (i) comparable nature of the substantial assets of the company to be evaluated; (ii) the availability of the data and the eligibility of valuation multiple with the fairness and reasonableness of adopting P/B Multiple as analysed above; and also (iii) the reasonable reference to duration for market practice.

We noted that according to the selection criteria by the Independent Valuer on the comparable transaction, there are two comparable transactions ("**Comparable Transactions**") as identified after locating the transactions in both HKEXnews and Shanghai Stock Exchange. We have discussed with the Management and noted that the LNG receiving terminal industry set high entry barriers which just a few companies which possess qualified technology and sufficient capacity would be able to enter into the LNG receiving terminal industry. We have conducted independent research and located one research report and another research paper regarding the prospects of LNG receiving terminal companies. Per the research report named China LNG Receiving Terminal Industry Market Monitoring and Development Prospect Research Report, 2025-2031 (2025-2031年中國LNG接收站行業市場行情監測及發展前景研究報告) as released by 北京智研科信諮詢有限公司 dated 10 January 2025, the number of LNG receiving terminals completed its construction and put into operation in China reached 33. Also, pursuant to another research paper named Analysis of the Development Trend of Domestic LNG Receiving Terminal (國內LNG接收站發展趨勢分析) as posted on the Chongqing Petroleum and Gas Exchange (重慶石油天然氣交易中心) dated 27 September 2024, there were 15 LNG receiving terminals under construction in China.

With these two figures, we are of the view that there is more likely a lean number of subject comparables which are both listed companies and principally engaged in the construction and management of LNG receiving terminal in the PRC. Hence, we considered that the two (2) Comparable Transactions as identified after conducting researching in both HKEXnews and Shanghai Stock Exchange are sufficiently representative.

Valuation of the Rudong LNG Company by the Independent Valuer

Stage 1: Valuation of Business Value of Rudong LNG Company before considering the committed capital injection from Strategic Investor 2

The Independent Valuer has identified an exhaustive list of comparable transactions of respective acquirers and target companies that satisfy the above-mentioned selection criteria. We have reviewed the working papers of the Independent Valuer, and noted that the Independent Valuer has applied (i) the market condition adjustment of 81% (i.e. a discount of 19%) to reflect the different market conditions and the changes in the general industry risks between the Valuation Date and the respective transaction dates of Comparable Transactions; and (ii) a discount for lack of control ("**DLOC**") of 23.6% for Comparable Transaction 1 to arrive at the average of the adjusted P/B ratio of the Comparable Transactions of 1.87 times, which was adopted in the preliminary valuation of Rudong LNG Company as multiple of the expected net asset value of the Rudong LNG Company as at 31 July 2024, before taking into account of the committed capital injection from Strategic Investor 2.

Our assessment

It is noted that the dates of Comparable Transactions were different from the Valuation Date and the market conditions between those transaction dates and the Valuation Date are different. Moreover, the transferred equity interests in one of the Comparable Transactions was over 50% such that the acquirer was obtaining the control in the target. On the other hand, according to the management of Target Company, the GCL Petroleum has no control over the Rudong Company with its 51% holding equity interests. Hence the adjustments for the market conditions and the minority discounts are adopted by the Independent Valuer. We have discussed the application of the market condition adjustment and the DLOC with the Independent Valuer and noted that the market condition adjustment and the DLOC are commonly adopted in valuation exercise on adjusting different market conditions, and the pro rata value of a minority interest is less than the pro rata value of a controlling interest in a business enterprise reflecting the lack of control.

In respect of our independent works on the market condition adjustment and the DLOC, we have obtained and reviewed the sources of the market condition adjustment and the DLOC adopted by the Independent Valuer.

For the market condition adjustment, we noted that an exhaustive list of seven (7) component companies ("**Comparable Companies**") representative of the industry of LNG sales and provision was identified from Capital IQ, which is not similar enough to construct a benchmark in the application of the guideline company method, but sufficiently representative to develop market condition adjustments to reflect the different market sentiments of the companies in LNG industry as a whole.

The Independent Valuer excluded the outliers of the P/B ratios (falling outside the range of one standard deviation) of such Comparable Companies and arrived the average P/B ratios of the Comparable Companies as at the Valuation Date, the date of the Comparable Transaction 1 (i.e. 19 April 2022) and the date of the Comparable Transaction 2 (i.e. 20 February 2023) respectively, and then compared the average P/B ratios of the Comparable Companies as at the Valuation Date with the ones as at 19 April 2022 and 20 February 2023, respectively. We noted that the market condition adjustment of 81% was derived from the percentage of average P/B Multiple of the as at the Valuation Date (i.e. 1.47) over the ones of date of 19 April 2022 (i.e. 1.81) and 20 February 2023 (i.e. 1.81). We considered such market adjustment method is fair and reasonable, given the market conditions are volatile in different economic and social circumstances during the period commencing from the date of the Comparable Transaction 1 (i.e. 19 April 2022) to the Valuation Date; and it was noted from the Independent Valuer that such adjustment method is common accepted in valuation field.

The DLOC of 23.6% were referred to Control Premium Study (1st Quarter 2024) published by FactSet Mergerstat ("**Control Premium Study**"). Upon our review of the Control Premium Study, we noted that Control Premium Study had identified 472 deals for the past 12 months, and the median of equity control premium was 23.6%.

In consideration of (i) the rationale and calculation approach of the market condition adjustment; (ii) the large number of transactions with the median of equity control premium as 23.6% referred to in Control Premium Study; and (iii) the discussion with the Independent Valuer on the applications of the DLOC as stated above, we concur with the Independent Valuer that the bases adopted for the market condition adjustment of 8 1% and the DLOC of 23.6% are fair and reasonable.

Stage 2: Valuation of Business Value of Rudong LNG Company after adding the committed capital injection from Strategic Investor 2

We also noted that the Independent Valuer also considered the Capital Receivables from Strategic Investor 2 in the valuation by adding such element to arrive the present value of the Rudong LNG Company. We considered such element is added in necessity, given Strategic Investor 2 had committed to contribute such capital within one year, which is foreseeable.

(ii) 48% Equity Interest in the Maoming Bohe

For valuation of the equity interest in the Maoming Bohe, which is principally engaged in the development of an LNG terminal, its Maoming LNG Receiving Terminal Project is still in research phase and the government has yet to grant the relevant approvals, the valuation of the Maoming Bohe is mainly based on the book value. As the Maoming LNG Company's substantive assets is the Maoming LNG Receiving Terminal Project, which (a) is in research phase and not yet to put into construction and (b) has not obtained the government approval, substantively different from the Rudong LNG Company's LNG Receiving Terminal Project (a) whose construction progress is in 90% completion and (b) has been granted the government approval, we are of the view that it is meaningless to apply the same valuation approach on Rudong LNG Company to Maoming Bohe. As the LNG receiving terminal industry is of high entry barrier and its technology and capacity is of key significance, we are of the value that adopting the net asset book value of Maoming Bohe as at the Valuation Date as its valuation amount is fair and reasonable, *(iii) Unpaid Capital*

According to the articles of association of GCL Petroleum, the latest date for the shareholders of GCL Petroleum to contribute the Unpaid Capital is on 30 June 2029.

The Unpaid Capital is assumed to be received by GCL Petroleum on 30 June 2029 which is less than 4.91 years from the Valuation Date. Based on the RMB benchmark loan rate over 5-year published by the People's Bank of China as at the Valuation Date, a discount rate of 3.85% was adopted. The present value of the Unpaid Capital was calculated based on the 3.85% discount rate and a 4.91-year term.

The Director considers that the utilisation of present value on the Unpaid Capital, with basis of (i) the benchmark loan rate published by the People's Bank of China and (ii) the term of 4.91 years according to the articles of association of GCL Petroleum, is fair and reasonable for the valuation of the Unpaid Capital and the equity interest in the Target Group as a whole.

We have conducted research online and noted that 5-year lending prime rate of 3.85% as issued by the National Interbank Funding Centre came into effect since 22 July 2024 and was lowered down to 3.60% on 21 October 2024. As the Valuation Date is 31 July 2024, it is reasonable that the Independent Valuer adopted the 5-year effective lending prime rate of 3.85% to arrive the present value of the future capital receivables of the GCL Petroleum.

We also noted that upon the Completion, the Company, will perform the contribution obligation on behalf of the Seller, which demonstrated certainty of the commitment of approximately RMB246.5 million of the Unpaid Capital of RMB294 million. Also, the Unpaid Capital's obligation is included in the articles of association of the GCL Petroleum, so if such obligation is not performed, GCL Petroleum has its sufficient interest as standing to commence legal proceedings. Hence, we are of the view that for the foreseeable contribution of Unpaid Capital, it is fair and reasonable to be taken into account as one component to arrive the valuation of GCL Petroleum. The valuation method of discounted cash flow method to calculate the present value of future cashflow is also fair and reasonable.

(iv) Other Assets and Liabilities

The other assets and liabilities of GCL Petroleum are valued as the same as their respective book values. We have reviewed the Valuation Report and noted that the other assets comprise GCL Petroleum's cash, short-term other receivables, long-term other receivables, other non-current assets, fixed asset; the liabilities of GCL Petroleum comprise other payables and long-term borrowings. We have discussed with the Management and noted that there is no material expected credit loss of GCL Petroleum or any expected write-offs of assets since the Valuation Date until the Latest Practicable Date. Hence, we are of the view that the net assets to be valued as the same as their book value is fair and reasonable. Given these assets and liabilities are for ordinary business purpose and majority of them are of cash nature, we are of the view that neither of the income approach or market approach is applicable here.

Our view

Regarding the valuation of the components of (2), (3) and (4) above, we considered (i) it is reasonable to refer to the book value of Maoming Bohe as (a) it is in research phase and it has not obtained any government approval to develop its LNG receiving terminal yet; and (b) the LNG receiving terminal industry is of high entry barriers so the technology and the capacity of the participants matter, which can be demonstrated from the net asset book value of Maoming Bohe; (ii) it is fair to consider the present value of the Unpaid Capital given it is a foreseeable and legal obligation for the shareholders of GCL Petroleum to fulfill by 30 June 2029, which is fair and reasonable to be valued by discounted cash flow method using the stipulated period according to the articles of association of GCL Petroleum and the prevailing 5-year lending prime rate as at the Valuation Date; and (iii) it is fair to consider the other assets and liabilities of GCL Petroleum and valued them the same as the respective book values given there is no material expected credit loss or any write-offs as of Latest Practicable Date.

In light of above, we considered the valuation of the Target Company is fair and reasonable to be used for one of the basis to determine the consideration of the Acquisition.

Our view on Fairness and Reasonableness of the issue of the Consideration Shares

In order to further assess the fairness and reasonableness of settlement of the Acquisition, we have also considered the following factors:

The Issue Price

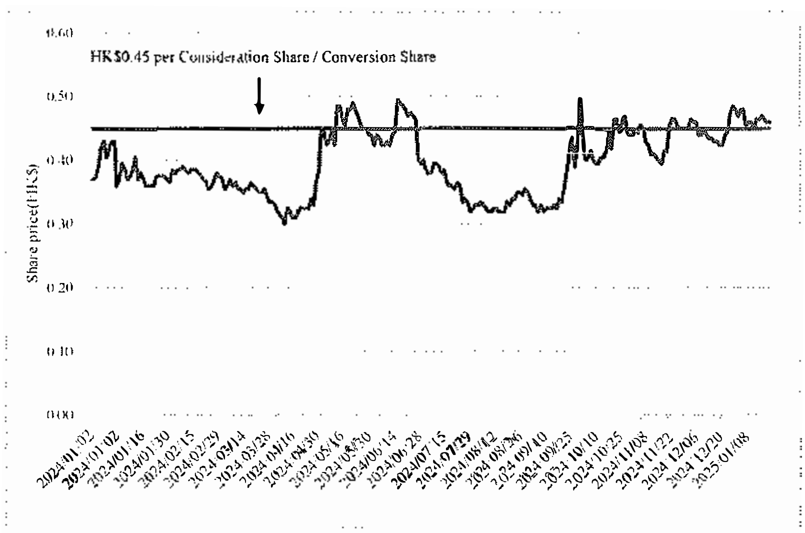
The Consideration shall be satisfied by the Purchaser (i) as to RMB200 million (approximately HK$212.40 million) by way of cash, (ii) as to RMB65 million (approximately HK$69.03 million) by way of allotment and issue of Consideration Shares, being 153,400,000 Shares; and (iii) as to HK$63.72 million (approximately RMB60 million) by way of issuance of Convertible Bonds. Both the issue price of the Consideration Shares and the initial Conversion Price for the conversion of the Convertible Bonds are HK$0.45 per Consideration Share/Conversion Share.

Set out below is our analysis on the Issue Price:

(i) Historical Share prices

Set out below are the movements of the closing prices of the Shares during the period from 1 January 2024 up to and including the Latest Practicable Date (the "**Review Period**"). The Review Period which covers 2024 up to the Latest Practicable Date, is in our view sufficient to provide a fair overview of the recent market performance of the Shares. The Share price performance during the Review Period is illustrated as follows:

Share price performance compared to issue price/conversion price



During the Review Period, the closing prices of the Shares were between a low of HK$0.300 per Share on 22 April 2024 and a high of HK$0.495 per Share on 25 June 2024 and 7 October 2024, with an average closing price of approximately HK$0.300 per Share.

Since 15 January 2024, the closing price of the Share decreased steadily to a low of HK$0.300 per Share on 22 April 2024. Between 10 May 2024 and 22 May 2024, there was a surge in the closing price of the Shares from HK$0.385 per Share on 10 May 2024 to HK$0.485 per Share on 22 May 2024. Apart from the completion of placing of 233,487,154 new Shares under general mandate (the placing agreement of which was announced on 22 April 2024) on 10 May 2024, based on our discussion with the management of the Company, we are not aware of any specific factors that would reasonably contribute to such surge in the closing price of the Shares.

The closing price of the Share decreased from HK$0.490 on 26 June 2024 to a low of HK$0.320 per Share on 5 August 2024, and hovered between HK$0.320 and HK$0.350 until late September 2024, where the closing price of the Share began climbing to and remained steady at the level of HK$0.45. Based on our discussion with the management of the Company and the public disclosures of the Company during the said period, we are not aware of any specific factors that would reasonably contribute to such surge in the closing price of the Shares.

We note that the issue price of the Consideration Share/the Conversion Price for the Conversion Shares of HK$0.45 is close to the prevailing close price of the Share since September 2024, we concur with the Directors' view that the Consideration Share/the Conversion Price for the Conversion Shares of HK$0.45 is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

(ii) Comparison with recent issues of consideration shares

To assess the fairness and reasonableness of the Issue Price, we have identified share issues involving companies listed on the Main Board of the Stock Exchange which announced issues of consideration shares for acquisition purposes (excluding (i) issues of A shares or domestic shares; (ii) issues involving reverse takeover, share exchange privatisations or share buy-back offers; and (iii) acquisition/issues that have been terminated) during the period from 1 July 2024 to the date of the Sale and Purchase Agreement (the "**Consideration Share Comparable**"). The review period, which covers over the second half 2024 is in our view sufficient to offer insight to the recent market practice on issue of consideration shares under prevailing market condition.

Date of announcement	Name of company (Stock code)	Issue price (HK$)	Premium/ (Discount) of the issue price over/to the closing price on the respective last tradingday %	Premium/ (Discount) of the issue price over the average closing price for the respective last five trading days %
5 July 2024	China Health Group Limited (673)	0.80	(14.89)	(15.95)
24 July 2024	Ruicheng (China) Media Group Limited (1640)	0.60	(17.81)	(19.79)
26 July 2024	ESRGroup Limited (1821)	11.66	0.00	(2.02)
26 July 2024	China Qidian Guofeng Holdings Limited (1280)	0.40	(19.19)	(19.84)

Date of announcement	Name of company (Stock code)	Issue price (HK$)	Premium/ (Discount) of the issue price over/to the closing price on the respective last trading day %	Premium/ (Discount) of the issue price over the average closing price for the respective last five trading days %
31 July 2024	Capital Realm Financial Holdings Group Limited (204)	0.47	(9.62)	(0.21)
9 August 2024	Wanguo Gold GroupLimited (3939)	8.12	7.98	12.56
12 August 2024	Ocumension Therapeutics (1477)	9.20	25.51	26.10
12 August 2024	Yoho Group Holdings Limited (2347)	1.00	66.67	62.87
16 August2024	Sinohope Technology HoldingsLimited (1611)	2.18	14.14	14.14
23 August 2024	SY Holdings Group Limited (6069)	5.20	(5.97)	(3.74)
23 August 2024	GoFintech Innovation Limited (290)	0.89	0.00	(1.98)
11 September 2024	Auto Italia Holdings Limited (720)	0.13	(10.34)	(8.96)
11 September 2024	CMGE Technology Group Limited (302)	1.68	140.00	139.32
20 September 2024	Kindstar Globalgene Technology, Inc. (9960)	1.42	16.39	27.47
24 September 2024	KingkeyFinancial International (Holdings) Limited (1468)	0.423	(7.03)	(6.00)
27 September2024	China Vered Financial Holding Corporation Limited (245)	0.052	2.00	0.00
15 October 2024	YSB Inc. (9885)	12.00	63.04	58.82
2 December2024	Asia Allied Infrastructure Holdings Limited (711)	0.50	11.11	11.36
9 December2024	OSL Group Limited (863)	8.156	(0.29)	0.00
31 December 2024	GoFintech Innovation Limited(290)	0.79	0.00	1.54
31 December 2024	China Greenland Broad Greenstate GroupCompany Limited (1253)	0.1	233.33	278.79
		Maximum	233.33	278.79
		Minimum	(19.19)	(19.84)
		Average	23.57	26.69
		Median	0.00	0.00
(Excluding outliers)		Maximum	25.51	27.47
		Minimum	(19.19)	(19.84)
		Average	(0.47)	1.22
		Median	0.00	0.00
	The Consideration Shares	HK$0.45	(2.17)	(4.86)

As set out in the table above, we note that the issue price to (i) the closing price on the last trading day prior to the announcements in relation to the respective Consideration Share Comparables ranged from a discount of approximately 19.19% to a premium of approximately 233.33%, with an average and median premium of approximately 23.57% and 0.00% respectively; (ii) the average closing price of the last five trading days prior to the announcements in relation to the respective Consideration Share Comparables ranged from a discount of approximately 19.84% to a premium of approximately 278.79%, with an average and median premium of approximately 26.69% and 0.00% respectively.

We noted that the range of the Consideration Share Comparables from a discount of approximately 19.19% to a premium of approximately 233.33% is large, and shall we remove Comparables of over one standard deviation (a premium of 60.54%) which we consider outliers, the issue price to (i) the closing price on the last trading day prior to the announcements in relation to the respective Consideration Share Comparables ranged from a discount of approximately 19.19% to a premium of approximately 25.51%, with an average and median discount of approximately 0.47% and 0.00% respectively; (ii) the average closing price of the last five trading days prior to the announcements in relation to the respective Consideration Share Comparables ranged from a discount of approximately 19.84% to a premium of approximately 27.47%, with an average and median premium of approximately 1.22% and 0.00%, respectively.

The issue price of HK$0.45 per Consideration Share is at (i) a discount of approximately 2.17% to the closing price per Share on the date of the Sale and Purchase Agreement; and (ii) a discount of approximately 4.86% to the average closing price per Share for the last five trading days up to and including the date of Sale and Purchase Agreement.

Having considered that the issue price of HK$0.45 per Consideration Share falls within the range of the daily highest and lowest closing price of the Shares and representing a premium of approximately 50.00% over the average daily closing price of the Shares during the Review Period, we consider that the issue price of the Consideration Share that is approximate to the closing price on the date of the Sale and Purchase Agreement and the average closing price for the five (5) consecutive trading days of the Shares immediately prior to the date of the Sale and Purchase Agreement, is considered favourable to the Company and in the interests of the Company and the Shareholders as a whole. Furthermore, as the respective discount represented by the issue price of the Consideration Share over the closing price of the Shares on the Last Trading Date and over the average closing price per Share for the last five trading days prior to the Last Trading Date both fall within the ranges of the premium/ discount represented by the issue prices of consideration shares of the Consideration Share Comparables, and are close to the averages and medians of the Consideration Share Comparables (excluding outliers), we consider that the Consideration Share Comparables serve as fair market reference on issue price of consideration shares and that the issue price of the Consideration Share is in line with the general practice of the market. As a whole, we consider that the issue price of the Consideration Share is fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Comparison with recent issues of convertible bonds

To assess the fairness and reasonableness of the Conversion Price (which equals to the issue price of the Consideration Shares), we have identified issue of convertible bonds involving companies listed on the Main Board of the Stock Exchange which announced issues of convertible bonds for acquisition purposes (excluding (i) issues of A shares or domestic shares; (ii) issues involving reverse takeover, share exchange privatisations or share buy-back offers; and (iii) acquisition/issues that have been terminated) during the period from 1 July 2024 to the date of Sale and Purchase Agreement (the "**Convertible Bonds Comparable**"). The review period, which covers over second half 2024 is in our view sufficient to offer insight to the recent market practice on issue of consideration shares under prevailing market condition. Based on the selection criteria, we have only identified Comparable and therefore, we have relaxed the selection criteria to include companies listed on the GEM Board of the Stock Exchange.

Date of announcement	Name of company (Stock code)	Conversion price (HK$)	Premium/ (Discount) of the conversion price over/to the closing price on the respective last trading day %	Premium/ (Discount) of the conversion price over the average closing price for the respective last five trading days %
29 July 2024	Sino-Life Group Limited (8296)	0.10	66.67	67.79
26 November 2024	Smart Globe Holdings Limited (1481)	1.20	100.00	111.27
8 December 2024	Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. (8115)	1.1	(19.8)	(22.0)
		Maximum	100.00	111.27
		Minimum	(19.8)	(22.0)
		Average	48.96	52.35
		Median	66.67	67.79
	The Consideration Shares	HK$0.45	(2.17)	(4.86)

As set out in the table above, we note that the conversion price to (i) the closing price on the last trading day prior to the announcements in relation to the respective Convertible Bonds Comparables ranged from a discount of approximately 19.8% to a premium of approximately 100.0%, with an average and median premium of approximately 48.96% and 66.77% respectively; (ii) the average closing price of the last five trading days prior to the announcements in relation to the respective Convertible Bonds Comparables ranged from a discount of approximately 22.0% to a premium of approximately 111.27%, with an average and median premium of approximately 52.35% and 67.79% respectively.

We noted that the range of the Consideration Share Comparables from a discount of approximately 19.8% to a premium of approximately 100.0% is large, and shall we remove Comparables of over one standard deviation (a premium of 61.83%) which we consider outliers, we are left with the sample of Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. (stock code: 8115), with the conversion price representing a discount of approximately 19.8% and approximately 22.0% to the closing price on the last trading day prior to the relevant announcement and the average closing price of the last five trading days prior to the relevant announcement, respectively, which are both at deeper discounts as compared to those of the Conversion Price.

Having considered that (i) the Conversion Price of HK$0.45 per Conversion Share (which equals to the issue price of the Consideration Shares) falls within the range of the daily highest and lowest closing price of the Shares and representing a premium of approximately 50.00% over the average daily closing price of the Shares during the Review Period; (ii) the respective discount represented by the issue price of the Consideration Share and Conversion Price over the closing price of the Shares on the Last Trading Date and over the average closing price per Share for the last five trading days prior to the Last Trading Date are close to/no less favourable to (as the case may be) the averages and medians of the Consideration Share Comparables and Convertible Bonds Comparables (excluding outliers) we consider that the Conversion Price that is approximate to the closing price on the date of the Sale and Purchase Agreement and the average closing price for the five (5) consecutive trading days of the Shares immediately prior to the date of the Sale and Purchase Agreement, is considered favourable to the Company and in the interests of the Company and the Shareholders as a whole, and is fair and reasonable so far as the Independent Shareholders are concerned.

5. Reasons for and Benefits of The Loan Agreements

According to the "Letter from the Board", Jiangsu Xiexin and Taicang Harbour are both subsidiaries controlled by Golden Concord Group. The provisions of the Loan Agreement 1 and the Loan Agreement 2 to Jiangsu Xiexin and Taicang Harbour respectively are funded by GCL Petroleum's idle capital, and the terms of the Loan Agreement 1 and the Loan Agreement 2 were arrived at by GCL Petroleum after arm's length negotiations and are on normal commercial terms. The interest rates of 3.85% per annum which is applicable to the Loans from 1 August 2024 is higher than the one-year loan prime rate of 3.35% released by the People's Bank of China in September 2024 and the RMB deposit rates offered by the banks to the Group, thereby enabling GCL Petroleum to receive stable interest income utilising its idle capital.

In addition, under the terms of the Loan Agreement 1 and the Loan Agreement 2, GCL Petroleum has the right to demand Jiangsu Xiexin and Taicang Harbour for early repayment of the outstanding amount of the Loans by serving a 30-day notice to Jiangsu Xiexin or Taicang Harbour. This offers a flexible mechanism to GCL Petroleum or the Group to optimize the use of its capital. Having considered the interest income to be received by GCL Petroleum on the idle capital and the flexible mechanism to optimize the use of its capital, the Directors (other than the independent non-executive Directors who will form their view after considering the advice from the Independent Financial Adviser) considered that the terms of the Loan Agreements are fair and reasonable and is in the interest of the Company and its shareholders as a whole.

Our view and assessment

According to the website of the People's Bank of China, as at the Latest Practicable Date, the one-year loan prime rate was 3.1% and the five-year loan prime rate was 3.6%.

Interest rate

We noted that as at the Latest Practicable Date, the remaining duration of Loan Agreement 1 and the Loan Agreement 2 were both less than three years. Although the remaining duration of both Loan Agreement 1 and Loan were less than three years which were also less than five years, the interest payment from both Jiangsu Xiexin and Taicang Harbour were in a higher interest rate than the five-year loan prime rate of 3.6% available on the mainland market, it is concluded that such interest rate of 3.85% as stipulated under the Loan Agreement 1 and Loan Agreement 2 were favourable to the Company and its Shareholders as a whole. GCL Petroleum will be benefited from receiving interest income generated from the outstanding amounts under the Loan Agreement 1 and Loan Agreement 2 by utilising its idle capital.

Credit assessment

With respect to Jiangsu Xiexin, as disclosed in the Letter from the Board, Jiangsu Xiexin is principally engaged in the investment in electric power project, provision of operational and consulting services for electric power projects and technical consulting services. It has a registered capital of RMB3 billion of which RMB2 billion has been paid. As at 31 July 2024, its total assets and net assets amounted to approximately RMB3 billion and approximately RMB1.7 billion, respectively. As the principal amount of Loan 1 of RMB111.0 million accounted for only approximately 3.7% and approximately 6.5% of the total assets and net assets of Jiangsu Xiexin as at 31 July 2024, respectively, we consider that there is adequate financial stability with respect to the repayment of Loan 1 considering the healthy net assets ratio of over 50% and the considerable amount of net assets of Jiangsu Xiexin relative to the principal amount of Loan 1.

With respect to Taicang Harbour, as disclosed in the Letter from the Board, Taicang Harbour is principally engaged in the generation of clean coal combustion thermal power, production and sales of electric power, heat and ancillary products and provision of the corresponding technical services. As at 31 July 2024, Taicang Harbour reported consolidated total assets and net assets of RMB16.2 billion and RMB4.2 billion, respectively. As the principal amount of Loan 2 of RMB70.0 million accounted for only approximately 0.4% and approximately 1.7% of the total assets and net assets of Taicang Harbour as at 31 July 2024, respectively, we consider that there is adequate financial stability with respect to the repayment of Loan 2 considering the healthy net assets ratio of over 50% and the considerable amount of net assets of Taicang Harbour relative to the principal amount of Loan 2.

As further disclosed in the Letter from the Board, according to the Loan Agreement, Jiangsu Xiexin was held by Golden Concord Group Limited (PRC), a company that was ranked the 40th in the 2023 Top 500 Private Enterprises and was recently rated as AAA in credit rating by Dagong Global Credit Rating Company (大公國際資信評估有限公司), as to 60%, as at the Latest Practicable Date. On the other hand, 72% and 19% of Taicang Harbour's equity interests were held by GCL-Poly (Taicang Harbour) and Zhongneng Electric, respectively, which were ultimately controlled by Asia Pacific Energy Fund (the ultimate beneficial owner of Golden Concord Group Limited (PRC)) as at the Latest Practicable Date. While Jiangsu Xiexin and Taicang Harbour are both private companies, we consider that high credit rating of the parent company, namely Golden Concord Group Limited (PRC), would indirectly add to the creditability of both Jiangsu Xiexin and Taicang Harbour.

Based on (i) the healthy net assets ratio of Jiangsu Xiexin of over 50% and the considerable amount of net assets of Jiangsu Xiexin relative to the principal amount of Loan 1; (ii) the healthy net assets ratio of Taicang Harbour of over 50% and the considerable amount of net assets of Taicang Harbour relative to the principal amount of Loan 2; and (iii) the strong association of Jiangsu Xiexin and Taicang Harbour with the parent company, namely Golden Concord Group Limited (PRC), which has high credit rating, we are satisfied with the borrowers' financial stability and accordingly, their repayment ability with respect to Loan 1 / Loan 2, and was not aware of any material changes in the current social and economic circumstances will overrule such result of credit assessment.

Right of repayable on demand

We have reviewed the material terms of the Loan Agreement 1 and Loan Agreement 2 and it was noted that both loan agreements have stipulated the GCL Petroleum's right of repayable on demand.

Given that (i) the satisfactory repayment capability of the borrowers as analysed above, namely the healthy net assets ratio, robust amount of net assets relative to the principal amount of Loan 1/Loan 2, and the strong association with the parent company, namely Golden Concord Group Limited (PRC), which has high credit rating; (ii) the interest rate of the Loan Agreement 1 and Loan Agreement 2 were favourable to the Group; and (iii) the right of repayable on demand legally binds the borrowers as the protection to the Group in the event of capital demand, we concur with the Directors' view that the recoverability of Loan 1 and Loan 2 and the accrued interest are at reasonable level and that the entering into of the Loan Agreement 1 and Loan Agreement 2 and the transactions contemplated thereunder can generate considerable returns to the GCL Petroleum by utilising the idle capital. Hence, the terms of the Loan Agreements are fair and reasonable and is in the interest of the Company and its shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the terms of the Sale and Purchase Agreement and the Loan Agreements and the transactions as contemplated thereunder are fair and reasonable; (ii) the Sale and Purchase Agreement and the Loan Agreements and the transactions as contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) the Sale and Purchase Agreement and the Loan Agreements and the transactions as contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolution to approve the Sale and Purchase Agreement and the Loan Agreements and the transactions as contemplated thereunder at the SGM.

Yours faithfully,
For and on behalf of
Messis Capital Limited

Wallace Cheung
Managing Director

Mr. Wallace Cheung is a licensed person registered with the Securities and Futures Commission of Hong Kong and regarded as a responsible officer of Messis Capital Limited to carry out type 6 (advising on corporate finance) regulatory activity under the SFO and has over 13 years of experience in corporate finance industry.