

27 January 2025

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION IN RELATION TO
THE DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Disposal, the Equity Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular of the Company dated 27 January 2025 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As disclosed in the Letter from the Board, on 30 December 2024, the Vendor, a direct wholly-owned subsidiary of the Company, the Purchaser and the Target Company entered into the Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, 51% of the equity interest in the Target Company at the Consideration of RMB142,720,000 (equivalent to approximately HK\$154,137,600), subject to the terms and conditions of the Equity Transfer Agreement. Upon Completion and the completion of the relevant Registration Procedures, the Target Company will cease to be an indirect subsidiary of the Company.

As at the Latest Practicable Date, the shares of the Purchaser are listed on the Shenzhen Stock Exchange (stock code: 000631) and it is owned as to approximately 62.28% by Wanxiang Group which in turn is ultimately controlled by Mr. Lu, the ultimate controller of the Company. As such, the Purchaser is a connected person of the Company, and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Disposal exceeds the 25% but is less than 75%, the Disposal constitutes a major transaction of the Company and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the relevant connected transaction must abstain from voting on the relevant resolution at the EGM. As at the Latest Practicable Date, Puxing International, which is ultimately controlled by Mr. Lu, is the Controlling Shareholder interested in approximately 65.42% of the issued Shares and the Purchaser is owned as to approximately 62.28% by Wanxiang Group which in turn is ultimately controlled by Mr. Lu. Accordingly, Puxing International and its associates will be required to abstain from voting on the resolution in relation to the Disposal, the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, apart from the abovementioned, none of the Shareholders is required to abstain from voting at the resolutions at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wu Chongguo, Ms. Wu Ying and Mr. Yu Wayne W., has been established to advise the Independent Shareholders on the terms of the Disposal, the Equity Transfer Agreement and the transactions contemplated thereunder. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE

As at the Latest Practicable Date, we were not associated with the Company or their respective core connected persons or associates. During the last two years prior to this appointment, there were no engagement between the Group and us. Apart from normal professional fees paid or payable to us by the Company in connection with the current appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or their respective core connected persons or associates that could reasonably be regarded as relevant to our independence. Accordingly, we considered eligible to act as the Independent Financial Adviser pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on the truth, accuracy and completeness of the statements, information, facts, representations and opinions contained or referred to in this Circular, provided and made to us by the Directors and management of the Company (collectively, the “**Management**”). We have reviewed the information of the Company, among other things, (i) the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”); (ii) the valuation report in respect of the valuation of 100% equity interests in the Target Company as at the Valuation Date (the “**Valuation Report**”) prepared by Tianyuan Appraisal Co., Ltd. (the “**Independent Valuer**”); (iii) the announcement of the Company dated 30 December 2024 in relation to, among others, the Disposal (the “**Announcement**”); and (iv) other information, representations and opinions as contained or referred to in the Circular.

We have not conducted an independent evaluation or appraisal of the assets and liabilities of either the Group or the Target Group, nor have we been furnished with any such evaluation or appraisal, except for the Valuation Report prepared by the Independent Valuer as set out in Appendix II to the Circular. Since we are not experts in the valuation of assets or business, thus we have relied solely upon the Valuation Report for the appraised value of the Target Company as at 30 September 2024.

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this Circular or this Circular misleading. We also have sought and received confirmation from the Directors that no material information or facts have been omitted from the information supplied and opinions expressed to us were not misleading or deceptive in any material aspects. We consider that the information we have received is sufficient for us to reach an informed view and to provide a reasonable basis for us to formulate our advice and recommendation set out in this Letter. We have no reason to believe that any material information or facts have been omitted or withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in this Circular or provided to us, or the reasonableness of the opinions expressed by the Management and the Company. We have not, however, conducted any independent investigation into the business, affairs, operations, financial position or future prospects of the Group or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of this Circular, save and except for this Letter. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular and will continue to be true up to the time of the EGM, and Shareholders will be informed of any material change as soon as possible.

Our advice is necessarily based on the prevailing financial, economic, market and other conditions and the information made available to us as at the Latest Practicable Date. Where information in this Letter has been extracted from published or otherwise publicly available sources, the sole responsibility of ours is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not used out of context. This Letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the matters relating to the terms of the Disposal, Equity Transfer Agreement and the transactions contemplated thereunder. Except for its inclusion in this Circular, this Letter is not to be quoted or referred to, in whole or in part, nor shall this Letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Disposal and Equity Transfer Agreement, we have taken into consideration the following principal factors and reasons:

1. Background information on the parties

1.1 The Group

As stated in the Letter from the Board, the Group is principally engaged in the development, operation and management of natural gas-fired power plants.

Set out below is a summary of the consolidated financial information of the Group for (i) the two years ended 31 December 2022 and 2023 (“FY2022” and “FY2023”, respectively) and (ii) the six months ended 30 June 2023 and 2024 (“1H2023” and “1H2024”, respectively), as extracted from the 2023 Annual Report and the 2024 Interim Report:

Table 1: Highlights of the financial results of the Group

	For the six months ended 30 June		For the year ended 31 December	
	2024	2023	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Revenue				
Electricity:				
– Volume tariff revenue	38,216	58,301	168,287	395,678
– Capacity tariff revenue	150,297	150,297	300,595	300,595
	188,513	208,598	468,882	696,273
Heat:				
– Revenue from sales of heat	19,690	23,414	44,628	56,869
	208,203	232,012	513,510	753,142

	For the six months ended 30 June		For the year ended 31 December	
	2024	2023	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Service:				
– Revenue from provision of operation and maintenance services	–	–	–	165
	208,203	232,012	513,510	753,307
Profit from operations	69,574	70,079	140,772	119,561
Profit attributable to equity shareholders of the Company	36,837	31,942	70,842	51,932

	As at 30 June	As at 31 December	
	2024	2023	2022
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Audited)
Total assets	1,993,493	1,729,629	1,779,710
Total liabilities	1,140,416	913,516	1,034,840
Net current liabilities	(336,657)	(284,999)	(282,850)
Net assets	853,077	816,113	744,870

For the six months ended 30 June 2023 and 2024

The revenue of the Group mainly comprises (i) revenue from electricity in terms of volume tariff revenue, capacity tariff revenue and (ii) revenue from sales of heat. Due to the decrease in overall demand for peak shaving power generation in Zhejiang Province, the overall power generation of the Group decreased. Revenue of the Group for 1H2024 amounted to approximately RMB208.2 million as compared to approximately RMB232.0 million for 1H2023, representing a decrease of approximately 10.26% as compared to the corresponding period of last year.

Due to the decrease in power generation and fuel costs during 1H2024, the Group's profit from operations for 1H2024 amounted to approximately RMB69.6 million (1H2023: RMB70.1 million), representing a decrease of 0.72% as compared to the corresponding period of last year.

As the combined effects of (i) the cut in capacity tariff effective from 1 January 2022; (ii) the decrease in power generation volume by natural gas power generating units of the Group for the 1H2024 as compared to 1H2023 under the exacerbation of cost inversion of natural gas power generation (i.e. the cost of natural gas power generation per unit is higher than the volume tariff of natural gas power generating units per unit) caused by the decrease in fuel costs for power generation in 1H2024; and (iii) the absence of the expected full implementation of the electricity spot market trading by Zhejiang Provincial Development and Reform Commission (浙江省發展和改革委員會) in 1H2024, the profit attributable to equity shareholders of the Company for 1H2024 was approximately RMB36.9 million, representing an increase of approximately 15.32% as compared to approximately RMB31.9 million in 1H2023.

As at 30 June 2024, the Group recorded net current liabilities and net assets of approximately RMB336.7 million and RMB853.1 million, respectively, indicating a worsening net current liabilities position as compared to 31 December 2023 and 2022.

For the two years ended 31 December 2022 and 2023

Revenue of the Group for FY2023 amounted to approximately RMB513.5 million, representing a decrease of approximately RMB239.8 million or 31.83% as compared to approximately RMB753.3 million for FY2022, which primarily attributable to the decrease in electricity sales volume, the heat supply and heating prices in 2023 as a result of the business development of the Group and grid power generation scheduling needs.

As affected by the decrease in fuel costs, and the decrease in power generation costs caused by the decrease in power generation, the profit from operations of the Group for FY2023 was approximately RMB140.8 million, representing an increase of approximately RMB21.2 million or 17.74% as compared to approximately RMB119.6 million for FY2022.

The profit attributable to equity shareholders of the Company for FY2023 was approximately RMB70.8 million, representing an increase of approximately RMB18.9 million or 36.41%, as compared to approximately RMB51.9 million for FY2022. Such increase was mainly attributed to improved operational efficiencies, effective cost management strategies, stable pricing mechanisms amidst challenging market conditions, strategic adjustments to business operations, and a recovering economic environment following the pandemic as compared to previous year. These factors collectively enabled the Company to enhance profitability despite facing significant challenges related to reduced revenue and power generation output.

As at 31 December 2023 the Group recorded net current liabilities and net assets of approximately RMB285.0 million (2022: RMB282.9 million) and RMB816.1 million (2022: RMB744.9 million), respectively.

1.2 The Purchaser

As stated in the Letter from the Board, the Purchaser is a company established under the laws of the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000631). It is principally engaged in clean energy power generation business, integrated smart energy services, real estate and property services. As at the Latest Practicable Date, it is owned as to approximately 62.28% by Wanxiang Group which in turn is ultimately controlled by Mr. Lu.

1.3 The Vendor

As stated in the Letter from the Board, the Vendor is a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company, which is principally engaged in investment holding.

1.4 The Target Group

As stated in the Letter from the Board, the Target Company is a company established under the laws of the PRC with limited liability on 18 August 2004, which is directly owned by the Vendor and Bluesky Power Plant as to 70% and 30%, respectively and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date. It is principally engaged in natural gas power generation and on-grid sales, supporting mechanical and electrical equipment production and sales, sales of hot water produced by waste heat, power grid auxiliary service project development, operation, maintenance and technical services.

As at the Latest Practicable Date, the Target Company directly owns the entire equity interest in Quzhou Puxing, a company established under the laws of the PRC with a registered capital of RMB300 million. Quzhou Puxing is principally engaged in thermal power technology research and development; gas turbine thermal power project investment, operation, maintenance, technical services; heating services; power generation business and investment and development for photovoltaic power generation project.

The Target Group currently operates two gas-fired power plants with an aggregate installed capacity of approximately 342.15 megawatt (MW) (including approximately 150 kilowatt (kW) photovoltaic power generating units) and a maximum heating capacity of approximately 200 tons/hour. The power plants operated by the Target Group generate power in accordance with the instructions of the relevant government authorities in Zhejiang Province and sell the power generated to State Grid Zhejiang Electric Power Co., Ltd. (國網浙江省電力有限公司) by sending it to the power grid. Quzhou Puxing also supplies steam to the users locating in proximity of its heating pipelines.

The following table sets forth the financial information of the Target Group for the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, prepared in accordance with the PRC GAAP and as extracted from the Letter from the Board:

Table 2: Highlights of the financial results of the Target Group

	For the nine months ended 30 September 2024	For the year ended 31 December 2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Unaudited)
Revenue	207,306	259,763	347,871
Profit/loss before taxation	37,426	46,005	35,176
Profit/loss after taxation	32,200	34,305	24,482

The revenue of the Target Group above comprises volume tariff revenue, capacity tariff revenue and revenue from sales of heat.

As stated in the Letter from the Board, the audited consolidated net assets value and total assets of the Target Group as at 30 September 2024 prepared in accordance with the PRC GAAP was approximately RMB279.8 million and RMB841.1 million, respectively.

2. Reasons for and benefits of the Disposal

As stated in the Letter from the Board, the Group is mainly engaged in the development, operation and management of natural gas-fired power plants. The Group has five wholly-owned gas-fired power plants in Zhejiang Province, with an aggregate installed capacity of 688.07 megawatt (MW) (including 1,072 kilowatt (kW) photovoltaic power generating units) with a maximum heating capacity of 360 tons/hour. For more details on the operational scale and financial position of the Target Group and the Group after the Completion of the Disposal, please refer to the section headed “II. Major and Connected Transaction – (5) Reasons for and Benefits of the Disposal” in the Letter from the Board.

Zhejiang Province is promoting reforms in the electricity spot market and implementing a capacity price reduction policy, which has brought challenges to the Group’s business model and profitability. In response, the Company’s management is actively researching and exploring new business models, striving to identify market convergence points, and is committed to achieving strategic transformation. The Company plans to use the proceeds from the Disposal to develop its energy-related business and/or other upstream and downstream businesses that generate synergies with the Company’s main business and are strategically aligned with the Company, by acquiring or investing in the business or companies engaged in the same business, as opportunities arise.

The Group believes that the Disposal will provide the Group with the opportunity to unlock the value of its natural gas power plant holdings, supplement its current working capital and provide immediate funding for the Group's future business development, which will help to enhance the Company's negotiating power and reduce transaction time and costs when opportunities arise.

2.1 Assessment on the reasons for and benefits of the Disposal

As disclosed in the paragraph headed "1.1 The Group" under section "1. Background information on the parties" above, the Group's revenue primarily includes volume tariff revenue, which represents the sale of electricity to power grid companies, capacity tariff revenue, which is subsidy income from power grid companies, and revenue from sales of heat. The decrease in the Group's revenue for 1H2024 indicating a decline of approximately 10.26% as compared to 1H2023, which was mainly due to a significant drop in overall demand for peak shaving power generation in Zhejiang Province.

Additionally, changes in electricity tariff policies, which are governed by the "Notice Regarding the Trial Implementation of Dual Tariff for Natural Gas Power Generating Units in Zhejiang Province" (《關於我省天然氣發電機組試行兩部制電價的通知》) and the "Notice from the Zhejiang Provincial Development and Reform Commission Regarding Optimising the Province's On-grid Tariff of Natural Gas Power Generation" (《浙江省發展改革委關於優化我省天然氣發電上網電價的通知》) issued by the Zhejiang Provincial Price Bureau (浙江省物價局) in June 2015 and September 2021, respectively, also affected the Group's capacity tariff revenue. The combined impacts of the reduced power generation and these regulatory changes led to an overall decrease in revenue of the Group for 1H2024 as compared to 1H2023.

Further to our inquiries with the Management in relation to the reasons of and benefits of the Disposal, we understood that the Company has considered the following factors when entering into the Equity Transfer Agreement:

- (i) **Unlocking value and financial flexibility:** the Disposal allows the Group to unlock the value tied up in its natural gas power plants. The net proceeds from the Disposal will provide immediate funds that can be utilised for developing energy-related businesses and/or other upstream and downstream businesses that generate synergies with the Company's main business and align with its strategic objectives, by acquiring or investing in businesses or companies engaged in the same industry, as opportunities arise.
- (ii) **Improving liquidity and addressing financial challenges:** Considering the Group's worsening net current liabilities position in recent years and the uncertainty in the operating environment, the Disposal is expected to (i) allow the Company to realise its investment in the Target Company at full book value with a reasonable amount of consideration, despite the uncertain economic outlook; (ii) provide immediate cash inflow, enabling the Group to meet its

working capital requirement and strengthen the Group's liquidity, thereby supporting future capital needs for both existing and new business development opportunities while alleviating possible challenges arising from the ongoing financial conditions and reduces the overall financial risks and optimises the asset structure of the Group, having considered that the Target Group operates two gas-fired power plants with the highest asset-liability ratios and financial expenses among all five gas-fired power plants within the Group, which recorded aggregate financial expenses of approximately RMB21.5 million for FY2023, prepared in accordance with the PRC GAAP; and (iii) facilitate the more effective utilisation of management and financial resources, ensuring the sustainability of the Group's other existing operations.

- (iii) **Business diversification:** by divesting from specific assets, the Group can diversify its energy portfolio. This diversification is critical in an evolving energy landscape where reliance on a single source of energy may pose risks. The Disposal provides an opportunity to divest from the Target Company at full book value with a reasonable consideration, despite the uncertain economic outlook. The proceeds will enable the Group to reallocate resources toward higher-return investment opportunities, better manage its financial resources, and explore new growth opportunities in the energy sector that align with its strategic objectives, market trends, and long-term resilience.
- (iv) **Rising operating costs:** Although the Target Group has been a profit-making subsidiary of the Company for the two years ended 31 December 2023 and the nine months ended 30 September 2024, the Company anticipates that the Target Group's profitability will gradually decline in the future, leading to a potential decline in the Group's profitability, as gas prices are projected to increase in the future. According to the *Gas Market Report, Q3-2024*, published by the International Energy Agency, a distinguished intergovernmental organisation established in 1974 which acts as energy policy advisor to 28 countries, including the United States, Japan and member states of the European Union, the global rise in gas prices is primarily driven by two key factors: (a) geopolitical tensions, particularly the impact of the Russia-Ukraine conflict, which has led to disruptions in natural gas supplies, particularly from Russia; and (b) growing demand for natural gas, especially in fast-growing Asian markets, exacerbated by extreme weather conditions. These factors have contributed to tighter gas market fundamentals and increased price volatility, posing risks to the energy sector's profitability. In addition to these market dynamics, changes in electricity tariff policies, governed by the "Notice Regarding the Trial Implementation of Dual Tariff for Natural Gas Power Generating Units" (《關於我省天然氣發電機組試行兩部制電價的通知》) and the "Notice from the Zhejiang Provincial Development and Reform Commission Regarding Optimising the Province's On-grid Tariff of Natural Gas Power Generation" (《浙江省發展改革委關於優化我省天然氣發電上

網電價的通知》), have also impacted the Group's capacity tariff revenue. The combined effect of reduced power generation, tighter gas market fundamentals, and these regulatory changes has contributed to the overall decline in the Group's revenue for the 1H2024 as compared to the corresponding period of last year.

Taking into consideration of the above, our review of the abovementioned publicly available statistics and the related policies and the analysis illustrated below, we concur with the Directors that the Disposal is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Equity Transfer Agreement

The following sets forth the principal terms of the Equity Transfer Agreement. For detailed terms of the Equity Transfer Agreement, please refer to the section headed "*II. Major and Connected Transaction – (2) Equity Transfer Agreement*" in the Letter from the Board.

Date:	30 December 2024
Parties:	(a) the Vendor; (b) the Purchaser; and (c) the Target Company.
Subject matter:	Pursuant to the Equity Transfer Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, 51% of the equity interest in the Target Company, subject to terms and conditions of the Equity Transfer Agreement. For more information on the Target Group, please refer to the section headed " <i>II. Major and Connected Transaction – (3) Information on the Target Group</i> " in the Letter from the Board.
Consideration:	The Consideration for the Disposal is RMB142,720,000 (equivalent to approximately HK\$154,137,600) which was determined after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms with reference to a number of factors, including: (a) the audited consolidated net assets value of the Target Group of approximately RMB279,840,826 as at the Audit Reference Date based on the Audit Report; (b) the audited financial performance of the Target Group for the nine months ended 30 September 2024;

- (c) the benefits of the Disposal as set out in the section headed “*II. Major and Connected Transaction – (5) Reasons for and benefits of the Disposal*” in the Letter from the Board; and
- (d) for the Board’s reference purposes, the Board has also considered the appraised value of the 100% equity interests in the Target Company as at 30 September 2024 by adopting the asset-based approach, being approximately RMB330,024,800 (equivalent to approximately HK\$356,426,784) prepared by the Independent Valuer.

**Registration
Procedures:**

The Vendor and the Purchaser shall complete the Registration Procedures within fifteen (15) Business Days after the date on which all the conditions precedent are fulfilled.

**Payment of the
Consideration:**

The Consideration shall be paid to a bank account designated by the Vendor within thirty (30) Business Days from the date of the completion of the foreign exchange registration of the funds of the Disposal in accordance with Hong Kong dollar foreign exchange purchase procedures (the amount of foreign exchange purchase proceeds shall be calculated at the actual exchange rate) after the Purchaser has withheld and paid taxation according to laws (if applicable).

**Transition period
arrangement**

- (a) Subject to the Completion, during the period from the Audit Reference Date to the Completion Date (the “**Transition Period**”), the Purchaser shall bear all the profits and losses of the Target Equity, and the Vendor shall have the obligation of good faith management of the Target Equity. In case of any event or potential event that has significant adverse impact on the Target Equity during the Transition Period, the Purchaser shall be notified in a timely manner and handle properly; and
- (b) the Vendor, the Purchaser and the Target Company agree that the accumulated undistributed profits corresponding to the Target Equity in the Target Company shall be solely owned by the Purchaser from the Audit Reference Date.

**Conditions
precedent:**

Completion is conditional upon the satisfaction of the following conditions precedent on or before the Completion Date in accordance with the terms of the Equity Transfer Agreement:

- (a) the Equity Transfer Agreement having been duly signed by the Vendor, the Purchaser and the Target Company;
- (b) the Purchaser having performed the necessary procedures in accordance with relevant laws, regulations, rules, articles of association and internal compliance procedures, including but not limited to: (i) approval of the Disposal by the unrelated directors of the Purchaser and making relevant resolutions at the board meeting duly convened by the Purchaser; and (ii) consent from other relevant government departments and any third party (if applicable);
- (c) the Vendor and the Target Company having performed the necessary procedures in accordance with relevant laws, regulations, rules, articles of association and internal compliance procedures, including but not limited to: (i) shareholders' decisions duly signed by the Vendor approving the Disposal and adoption of new articles of association of the Target Company; (ii) approval of the Disposal by the Independent Shareholders; (iii) compliance with the relevant requirements under the Listing Rules or the Stock Exchange; and (iv) consent from other relevant government departments and any third party (if applicable); and
- (d) the representations and warranties made by the Purchaser, the Vendor and the Target Company under the Equity Transfer Agreement remaining to be true, accurate and not misleading.

None of the above conditions precedent can be waived. As at the Latest Practicable Date, the conditions precedent set out in items (a) and (b)(i) above have been fulfilled.

Completion:

Completion shall take place on the date of the completion of Registration Procedures, which shall be completed within fifteen (15) Business Days from the date on which all the conditions precedent are fulfilled.

As at the Latest Practicable Date, the Target Company is directly owned as to 70% by the Vendor and 30% by Bluesky Power Plant, and is an indirect wholly-owned subsidiary of the Company. Upon Completion and the completion of the relevant Registration Procedures, the Target Company will be directly owned as to 51% by the Purchaser, 30% by Bluesky Power Plant and 19% by the Vendor, and accordingly, no longer be a subsidiary of the Company.

As at the Latest Practicable Date, there is no understanding, arrangement, undertaking or agreement concerning the Company's further disposal of any of the remaining 49% equity interest in the Target Company.

Termination:

The Equity Transfer Agreement may be terminated in writing in the following manners:

- (a) unless the Vendor, the Purchaser and the Target Company agree otherwise, if Completion does not take place on or before 31 March 2025, either the Vendor or the Purchaser may terminate the Equity Transfer Agreement by written notice to the other party;
- (b) if the Vendor, the Purchaser and the Target Company agree in writing;
- (c) except for the Force Majeure Event, if a party to the Equity Transfer Agreement fails to perform any of its obligations under the Equity Transfer Agreement in a timely and appropriate manner or breaches any of its representations, warranties and undertakings under the Equity Transfer Agreement, the non-defaulting party to the Equity Transfer Agreement may terminate the Equity Transfer Agreement;
- (d) if the Registration Procedures cannot be completed, the Vendor, the Purchaser and the Target Company may unanimously agree to terminate the Equity Transfer Agreement; or
- (e) if a Force Majeure Event has lasted for at least thirty (30) days and renders the performance of the obligations by any party under the Equity Transfer Agreement impossible, either the Vendor, the Purchaser or the Target Company may terminate the Equity Transfer Agreement.

Under the event set out in items (c) above, the non-defaulting party shall have the right to immediately terminate the Equity Transfer Agreement and abandon the Disposal upon its independent and prudent decision by written notice to defaulting party without bearing any liability. The right of either party to terminate the Equity Transfer Agreement pursuant to items (c) above is additional and separate, and any exercise of such right shall not affect, diminish, or constitute a waiver of any other right, remedy or claim available to it at the date of such written notice.

3.1 Valuation of the Target Company

To assess the fairness and reasonableness of the Consideration, we have considered and conducted the following analysis:

Consideration multiples of the Disposal and Comparable Companies

We have selected the price-to-earnings (“P/E”) multiple and the price-to-book (“P/B”) multiple (collectively, the “Multiples”), which are commonly adopted for the valuation of the profit-making companies and companies holding sufficient tangible assets on their balance sheets and thus is considered appropriate in assessing the reasonableness of the consideration for the disposals involving power assets. In this regard, we have derived the Multiples for the Disposal and compared them to the Multiples of companies which are listed on the Main Board of the Stock Exchange, have engaged in similar industry to the Target Company and recorded profit for their respective latest financial year (the “Comparable Companies”). Based on the foregoing selection criteria and to the best of our knowledge and endeavour, we have selected an exhaustive list of 13 Comparable Companies. Notwithstanding the Comparable Companies may or may not be identical to the Target Company in terms of the principal business, operations and financial position, we consider that our analysis, which was conducted based on the selection criteria, could provide a general reference for assessing the Consideration by making reference to other companies in the market with principal business comparable to that of the Target Company. The following table sets out a summary of the Multiples of the Comparable Companies:

Comparable Companies		Stock Code	Principal business (Note 5)	Profit for the year ended 31 December 2023 (Note 5) HK\$ million	P/E multiple (Note 2) times	P/B multiple (Note 3) times
1	CLP Holdings Limited	00002.HK	Primarily engaged in the generation, transmission, and retailing of electricity	7,670	12.40	1.40
2	Power Assets Holdings Ltd.	00006.HK	Primarily engaged in electricity generation, transmission, and distribution, as well as gas transmission and distribution, and oil storage and transmission businesses	6,003	14.98	1.04
3	Beijing Jingneng Clean Energy Co., Limited	00579.HK	Primarily engaged in wind power, photovoltaic power, gas-fired power and heat energy generation, small-to-medium-sized hydropower, energy storage and other clean energy generation businesses	3,494	3.20	0.40
4	China Resources Power Holdings Company Limited	00836.HK	Mainly invests, develops, operates and manages wind farms, photovoltaic power plants, hydro-electric power plants and other clean and renewable energy projects and coal-fired power plants in China	12,110	5.79	1.04

Comparable Companies		Stock Code	Principal business (Note 5)	Profit for the year ended 31 December 2023 (Note 5) HK\$ million	P/E multiple (Note 2) times	P/B multiple (Note 3) times
5	Huaneng Power International, Inc.	00902.HK	Mainly engaged in developing, constructing, operating and managing power plants throughout China	9,471	6.93	0.45
6	China Longyuan Power Group Corporation Limited	00916.HK	A large-scale power generation conglomerate focusing on the development and operation of new energy	7,417	11.53	0.63
7	Datang International Power Generation Co., Ltd.	00991.HK	A large-scale comprehensive energy listed company in terms of green and low-carbon, multiple energy complementarity	3,350	5.25	0.30
8	Huadian Power International Corporation Limited	01071.HK	Primarily engaged in the construction and operation of power plants, including large-scale efficient coal- or gas-fired generating units and various renewable energy projects	5,258	8.25	0.50
9	Tianjin Tianbao Energy Co., Ltd.	01671.HK	Mainly responsible for providing comprehensive energy services, development and operation of distributed photovoltaic power stations and development of new energy business	3	6.02	0.13
10	Sichuan Energy Investment Development Co., Ltd.	01713.HK	A vertically integrated power supplier and service provider in Yibin City, Sichuan Province, with a full power supply value chain covering power generation, electricity distribution and sales	369	7.30	0.59
11	CGN New Energy Holdings Co., Ltd.	01811.HK	Operates a diversified portfolio of energy projects, including wind, solar, gas-fired, coal-fired, oil-fired, hydro, cogeneration, fuel cell, and biomass, across the PRC and Korea power markets	2,176	3.67	0.79
12	CGN Power Co., Ltd.	01816.HK	Focuses on nuclear power-based electricity supply and services	18,409	10.01	0.94
13	China Power International Development Limited	02380.HK	An integrated energy group that simultaneously owns thermal power, hydropower, nuclear power and renewable energy resources in the PRC	4,897	4.98	0.46
	High-end				14.98	1.40
	Low-end				3.20	0.13
	Average				7.72	0.67
	Median				6.93	0.59
	The Disposal (Note 1)				6.52	1.00

Source: the website of the Stock Exchange and the latest interim results for 6M2024 of each Comparable Company

Notes:

1. The P/E multiple of the Disposal is calculated based on (a) the Consideration of approximately RMB142.72 million; (b) the percentage of the shares of the Target Company to be disposed of under the Disposal of 51%; and (c) the pro rata net profits of the Target Company for the year ending 31 December 2024 of approximately RMB42.93 million based on the audited profit after taxation for the nine months ended 30 September 2024, with the calculation formula of (a)/(b)/(c). Additionally, the P/B multiple is calculated based on: (a) and (b) as mentioned above, and (d) the audited consolidated net assets value of the Target Company as at 30 September 2024, which are approximately RMB279.84 million. The calculation formula for the P/B multiple is (a)/(b)/(d).
2. The market capitalization is calculated based on the number of issued shares as at 30 June 2024 multiplied by the share price as of the same day.
3. The P/E multiple of the respective Comparable Companies is calculated based on the market capitalization as at 30 June 2024 divided by the pro rata net profits of the Comparable Company for the year ending 31 December 2024 based on the profit after taxation for 6M2024 disclosed in the interim results for 6M2024 of the respective Comparable Companies.
4. The P/B multiple of the respective Comparable Companies is calculated based on the closing share price as at 30 June 2024 divided by the net assets value per share as at 30 June 2024, which is calculated based on the net assets value as at 30 June 2024 divided by the number of shares issued as at 30 June 2024 disclosed in the interim results for 6M2024 and monthly return of equity issuer on movement in securities as at 30 June 2024 of the respective Comparable Companies.
5. The descriptions of the principal businesses and the profit figures for the year ended 31 December 2023 for the Comparable Companies were sourced from their respective annual reports. For the purpose of illustration in this letter, unless otherwise indicated, the exchange rate of USD1.00 = HK\$7.78 has been used, where applicable.

As demonstrated in the table above, the P/E multiples of the Comparable Companies ranged from approximately 3.20 time to 14.98 time with an average of 7.72 time and a median of 6.93 time. In respect of the P/B multiples of the Comparable Companies, they ranged from 0.13 time to 1.40 time with an average of 0.67 time and a median of 0.59 time. In this regard, we noted that (i) the P/E multiple of the Disposal of 6.52 time falls within the range of the Comparable Companies, and is slightly lower than the average and the median of the P/E multiples of the Comparable Companies; and (ii) the P/B multiple of the Disposal of 1.00 time falls within the range of the Comparable Companies, and is higher than the average and the median of the P/B multiples of the Comparable Companies.

Appraised value of the Target Company in the Valuation Report

In addition, we noted that, as for the for the Board's reference purposes, the Board has also considered the appraised value of the Target Company as at 30 September 2024 (the "**Valuation**") as stated in the Valuation Report prepared by the Independent Valuer. In this regard, we obtained and reviewed the Valuation Report and noted that the appraised value of 100% equity interests in the Target Company as at 30 September 2024 was approximately RMB330.02 million. Therefore, the appraised value of the Target Company, based on the respective percentage of equity interests of the Target Company, as at 30 September 2024 was approximately RMB168.31 million (the "**Appraised Value**").

Independent Valuer's expertise

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of the Independent Valuer; (ii) the Independent Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Valuation Report. We were informed that on-site inspection of the Target Company was carried out by the Independent Valuer as part of the valuation process. From the mandate letter and other relevant information provided by the Independent Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Valuer as well as their qualification for preparation of the Valuation Report (i.e. (i) the Independent Valuer is a registered valuer under the Ministry of Finance of the PRC and has experience in providing valuation services for listed companies in PRC (including Hong Kong); and (ii) the Independent Valuer's major staff members (who were involved in the preparation of the Valuation Report) have experience of over 10 years in performing valuation services covering various industries), with the partner in charge of the Valuation has over 15 years of experience in performing valuation services in Hong Kong and the PRC. The Independent Valuer also confirmed that it is independent from the Company, the parties to the Disposal and their respective core connected persons, close associates and associates.

Valuation Methodologies and Assumptions

We have obtained and reviewed the Valuation Report and further enquired into the Independent Valuer on the methodologies adopted and the basis and assumptions adopted in the Valuation Report (For details of the basis and assumptions of the Valuation Report prepared by the Independent Valuer, please refer to Appendix II to the Circular), and we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions, and parameters adopted for the Valuation Report. We further understood that the Independent Valuer has considered all commonly valuation approaches adopted in the market (i.e. the income approach, the market approach and the asset-based approach) to determine the valuation of the 100% equity interests in the Target Company and adopted both market approach and asset-based approach for Valuation. According to the Independent Valuer, such approach is the most appropriate valuation method for the Valuation, primarily because: (a) based on the fundamentals of the Target Company and combined with interviews with the management of the Target Company, as well as historical operations, the main business of the Target Company is natural gas-fired power generation, and the pricing of electricity in the power generation business consists of electricity tariffs and capacity tariffs, with electricity tariffs being significantly affected by fluctuations in natural gas prices. The historical mode of operation of the Target Company has shown that natural gas-fired power generation mainly plays a role in the peaking of the electricity market, and its power generation capacity is greatly affected by the demand for power supply in the region. Based on the above factors, the management of the Target Company considers that future operating income and profitability are subject to considerable uncertainty, and it is not possible to make reasonable forecasts of future operating income and operating risks, therefore, it is not appropriate to adopt the income approach in the valuation; (b) there are comparable listed companies in the securities market with similar business operations as the Target Company, and the value of 100% equity interest in the Target Company can be calculated through comparative analysis with comparable listed companies, therefore, the market approach is applied in the valuation; and (c) on the basis of the audited financials as at the Valuation Date, the scope of assets and liabilities provided by the Target Company for appraisal is clear and can be verified and assessed on an item-by-item basis by means of financial information, information on purchases and construction and on-site inspections, and therefore the asset-based approach has been adopted for this valuation. For the above reasons, the results of the asset-based method are chosen as the total equity value of the shareholders of the Target Company. After considering the reasons above, we have not identified any material facts that would lead us to doubt the fairness and reasonableness of the Independent Valuer's adoption of the asset-based approach or the principal basis and assumptions used in the valuation of the Target Company.

We noted that the Independent Valuer has considered comparable listed companies in the PRC that (i) operate in the thermal power generation industry in the PRC or have a similar business structure; and (ii) share the similar primary market and customer base, and thus identified a total of three comparable companies on an exhaustive basis. Having considered that the comparable companies are exhaustive according to the Independent Valuer's selection criteria, we therefore consider the selection criteria adopted by the Independent Valuer is fair and reasonable.

We have reviewed the Valuation Report and discussed with the Independent Valuer in respect of the key assumptions adopted for performing the Valuation. We understand from the Independent Valuer that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Valuation. We also consider the assumptions adopted in the Valuation Report are general in nature and are not aware of any material facts which lead us to doubt the assumptions adopted by the Independent Valuer.

Details of the Valuation

According to the Valuation Report, the appraised value of 100% equity interests in the Target Company as at 30 September 2024 was approximately RMB330.02 million, which is differed from the audited consolidated net assets value of the Target Group as at 30 September 2024 prepared in accordance with the PRC GAAP of approximately RMB279.8 million, and that the Consideration represents a discount of approximately 17.93% to the Appraised Value.

Further to our discussions with the Independent Valuer and the Management, such difference was mainly due to the appreciation of land use right of the Target Group (the "**Land Use Right**"). We concurred our view with the Management and considered that the appraised value of the Land Use Right should not be taken into account as a basis for determining the Consideration is fair and reasonable primarily due to the following reasons:

- (i) **Transfer restrictions:** according to the relevant PRC laws and regulations, the Land Use Right generally needs to be transferred together with the buildings and attachments on the land as a whole. Since there is a natural gas-fired power plant on the land, this restriction highly limits the liquidity and marketability of the Land Use Right on its own;

- (ii) **Comparison limitations:** the appraised value of the Land Use Right was derived by comparing with the undeveloped lands for sale in the primary land market. However, this comparison does not accurately reflect the situation of the Target Group's land, which has existing gas-fired power plants;
- (iii) **Low liquidity:** due to the existing gas-fired power plant, potential buyers interested only in the land and would likely prefer undeveloped land to avoid:
 - a. Time and costs associated with obtaining approvals for transfer
 - b. Expenses related to demolition and land restructuring
 - c. Uncertainties in getting regulatory approval for the land use changes
- (iv) **Limited realisation potential:** the appreciation in land value would not be easily realised due to the factors mentioned above.

During the course of discussion with the Independent Valuer and our review on the Valuation Report and having considered that (i) the methodologies being applied in the Valuation; (ii) the principal bases and assumptions used in arriving at the valuations; and (iii) the qualification, expertise and experiences of the Valuer, we consider that nothing unusual matter has come to our attention that would lead us not to believe that the Valuation Report was prepared on a reasonable basis. We are of the view that the methodologies and assumptions which had been adopted were arrived at after due and careful consideration.

Considering that (i) despite the P/E multiple of the Disposal is slightly lower than the median of the P/E multiples of the Comparable Companies, we have taken into account that (a) the P/E multiple of the Disposal is within the range of the Comparable Companies; and (b) the fact that (1) the principal terms of the Equity Transfer Agreement are determined by the parties involved after arms-length negotiation, having made reference to the reasons illustrated in the paragraph headed "2. Reasons for and benefits of the Disposal" and the "4. Financial effects of the Disposal" below; and (2) the P/B multiple of the Disposal falls within the range of the Comparable Companies and is higher than the average and the median of the P/B multiples of the Comparable Companies; (ii) our review of the Valuation Report as explained in the above; and (iii) the basis that the Board considered not to adopt and consider the appraised value of land use rights when determining the Consideration as explained in the above, we concurred with the Directors' view that the Consideration is on normal commercial terms and fair and reasonable.

4. Financial effects of the Disposal

As stated in the Letter from the Board, upon the Completion and for illustrative purposes only, the Group is estimated to recognise a loss of approximately RMB2.1 million from the Disposal. Such estimated loss is calculated based on the Consideration (approximately RMB142.7 million) minus (i) the audited consolidated net assets value of the Target Group attributable to the Target Equity as at 30 September 2024 of approximately RMB142.7 million; and (ii) estimated transaction expenses directly attributable to the Disposal of approximately RMB2.1 million.

As a result of the Disposal, it is estimated that the total assets and the liabilities of the Group will decrease by approximately RMB841.1 million and RMB561.2 million, respectively. These figures are subject to adjustments based on the final net assets value of the Target Group at Completion and the final transaction expenses directly attributable to the Disposal.

The Company intends to use the proceeds from the Disposal to develop its energy-related business and/or other upstream and downstream businesses that generate synergies with the Company's main operations and align strategically with its goals. This will include acquiring or investing in businesses or companies engaged in the same business, as opportunities arise. As at the Latest Practicable Date, the Company has not identified any specific target of such acquisition or investment. The proceeds from the Disposal will be able to improve the Company's liabilities, supplement working capital, reduce financial costs and improve management level in the short term, while it will provide immediate funding for the Group's future business development and will help to enhance the Company's negotiating power and reduce transaction time and costs when opportunities arise in the long term.

Upon the Completion and the conclusion of the Registration Procedures, the Target Company will be directly owned as to 51% by the Purchaser and 30% by Bluesky Power Plant and 19% by the Vendor, and accordingly no longer be a subsidiary of the Company.

OPINION AND RECOMMENDATIONS

Having taken into account the above principal factors and reasons, we consider that the Equity Transfer Agreement and the Disposal are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions in relation to the Equity Transfer Agreement and the Disposal to be proposed at the EGM.

Yours faithfully,
for and on behalf of
ORIENT CAPITAL (HONG KONG) LIMITED



Edmund WONG
Managing Director

Mr. Edmund Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Orient Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 13 years of experience in the corporate finance industry.