

April 11, 2025

*To the Independent Board Committee and
the Independent Shareholders*

CGN Power Co., Ltd.*
18/F, South Tower, CGN Building
No. 2002 Shennan Road
Shenzhen, Guangdong Province
PRC

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
2026-2028 ENGINEERING SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2026-2028 Engineering Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps), details of which are set out in the circular of the Company to the Shareholders dated April 11, 2025 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

The Company entered into the 2014 Engineering Services Framework Agreement with CGN on November 21, 2014, completed amendments to the aforesaid agreement on September 25, 2016 and completed renewals on March 12, 2019 and March 17, 2022. As a continuation of the Agreement Currently in Force (namely the 2023-2025 Engineering Services Framework Agreement) that is expiring on December 31, 2025, the Company entered into the 2026-2028 Engineering Services Framework Agreement with CGN on March 26, 2025 to renew for the period up to December 31, 2028, pursuant to which the Group shall provide a variety of engineering services (the “**Engineering Services**”) to CGN Group.

CGN (a state-owned enterprise) is a controlling shareholder of the Company, hence CGN is a connected person of the Company. Accordingly, the transactions contemplated under the 2026-2028 Engineering Services Framework Agreement constitute continuing connected transactions of the Company. As stated in the letter from the Board in the Circular (the “**Board Letter**”), the 2026-2028 Engineering Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are subject to, among other things, approval by the Independent Shareholders at the 2024 AGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Ming Fung, Mr. Li Fuyou and Ms. Xu Hua, has been established to advise the Independent Shareholders in respect the 2026-2028 Engineering Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps). We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

Apart from normal professional fees paid or payable to us in connection with the current engagement for the 2026-2028 Engineering Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps), we did not have any other relationships or interests with the Company within the past two years from the Latest Practicable Date and we consider ourselves independent to form our opinion for the current engagement.

BASIS OF OUR OPINION

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group (the “**Management**”), and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Management were true at the time they were made and continued to be true up to the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient

information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Management nor have we conducted any form of investigation into the business, affairs or future prospects of the Group and CGN Group. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with note 1 to Rule 13.80 of the Hong Kong Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the 2026-2028 Engineering Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps), we have taken into account the following principal factors and reasons:–

1. Background to and reasons for the continuing connected transactions

The Group is primarily engaged in the construction, operation and management of nuclear power stations, sales of electricity generated by these stations and organization of the design development and scientific research for nuclear power stations. We have reviewed the annual results of the Company for the year ended December 31, 2024 and we note that, for the year ended December 31, 2024, the (i) approximately 76% of the total revenue of the Group was contributed from sales of electricity; and (ii) approximately 21% of the total revenue of the Group was contributed from construction, installation and design services.

CGN, being a state-owned enterprise and a controlling shareholder of the Company, is a large clean energy enterprise under supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. CGN Group is principally engaged in the generation and sale of power, and the construction, operation and management of nuclear and non-nuclear clean energy projects.

The Company entered into the 2014 Engineering Services Framework Agreement with CGN on November 21, 2014, completed amendments to the aforesaid agreement on September 25, 2016 and completed renewals on March 12, 2019 and March 17, 2022. As a continuation of the Agreement Currently in Force (namely the 2023-2025 Engineering Services Framework Agreement) that is expiring on December 31, 2025, the Company entered into the 2026-2028 Engineering Services Framework Agreement with CGN on March 26, 2025 to renew for the period up to December 31, 2028, pursuant to which the Group shall provide the Engineering Services, primarily including (i) pre-construction engineering services; (ii) survey, design and technical services; (iii) engineering project management services; (iv) general engineering, procurement and construction services; (v) bidding agency services; (vi) sales of used and/or superfluous materials; and (vii) other engineering services, to CGN Group. As such, we understand the Group has been conducting and is expected to continue to conduct the continuing connected transactions regarding the provision of the Engineering Services to CGN

Group. With reference to the Board Letter, the provision of engineering services is one of the principal operations of the Group and the transactions thereunder are revenue in nature in the ordinary course of business of the Group.

Having considered, in particular, (i) the transactions under the 2026-2028 Engineering Services Framework Agreement are revenue in nature to the Group and are in line with the core businesses of the Group; (ii) the 2026-2028 Engineering Services Framework Agreement is for the continuation of the Agreement Currently in Force that is expiring on December 31, 2025; and (iii) the terms of the 2026-2028 Engineering Services Framework Agreement are fair and reasonable as discussed below, we are of the view that the entering into of the 2026-2028 Engineering Services Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the continuing connected transactions

The 2026-2028 Engineering Services Framework Agreement was entered into on March 26, 2025, which we understand to be on substantially the same terms as the Agreement Currently in Force, to renew the Agreement Currently in Force for the period up to December 31, 2028.

In respect of the principal terms of the 2026-2028 Engineering Services Framework Agreement, the following pricing principles shall apply to the pricing of services contemplated under the 2026-2028 Engineering Services Framework Agreement in the following order:

- (i) “government price” (i.e. government-prescribed price and government-guided price): if at any time, the government-prescribed price is applicable to any particular type of products, technologies or services, such product, technology or service shall be supplied at the applicable government-prescribed price. Where a government-guided price standard is available, the price shall be agreed by reference to the government-guided price;
- (ii) “market price”: the price of the same or similar products or services provided with an Independent Third Party in the ordinary course of business on normal commercial terms; and
- (iii) “agreed price”: the price to be determined by adding a reasonable profit over a reasonable cost.

In respect of the internal control measures for the 2026-2028 Engineering Services Framework Agreement, we note that, among other things,

- (i) for the government price principle, the Group reviews the relevant government-prescribed price or government-guided price to ensure that the prices with CGN Group complies with the relevant government-prescribed price or government-guided price;
- (ii) for the market price principle, regarding the provision of products or services to CGN Group, the Group reviews the terms provided to the Independent Third Parties, and ensures that the principal terms provided to CGN Group are no less favourable to the Group than those provided to the Independent Third Parties;
- (iii) for the agreed price principle, if both the principles of the government price and market price are not applicable, the prices with CGN Group will be determined by adding a reasonable profit over a reasonable cost, and the Group will ensure that the relevant profit margin is no less favourable than that with the Independent Third Parties; and
- (iv) in accordance with the Hong Kong Listing Rules, (a) the external auditors of the Group will continue to report annually on the Continuing Connected Transactions to confirm, among other matters, whether the Continuing Connected Transactions were entered into in accordance with their respective framework agreements and, for the transactions involving the provision of goods or services by the Group, to confirm whether anything has come to their attention that causes them to believe the Continuing Connected Transactions are not, in all material respects, in accordance with the pricing policies of the Group; and (b) the independent non-executive Directors will continue to review and report annually on whether the Continuing Connected Transactions are, among other things, entered into in accordance with the respective framework agreements governing them and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Further details of the principal terms and the internal control measures of the 2026-2028 Engineering Services Framework Agreement are set out in the Board Letter.

We note from the two latest published annual reports of the Company that, in accordance with the Hong Kong Listing Rules, (i) the Company had engaged external auditor to report on the Continuing Connected Transactions of the Group for each of these two recent years and the external auditor of the Company had issued unqualified letters in respect of such transactions; and (ii) the independent non-executive Directors had also reviewed the Continuing Connected Transactions of the Group for each of these two recent years and confirmed that such transactions were, among other things, on normal commercial terms or more favourable terms.

In addition, we are advised by the Management that, during the year ended December 31, 2024, six of the seven categories of the Engineering Services recorded transactions. Hence, for these six service categories, we have reviewed five sets of the largest transactions and one set from random samples (i.e. one set for each category, with a total of six sets of sample transactions). Based on our review, we understand the sample transactions with CGN Group had adhered to the pricing policies aforementioned, given (i) for the government price principle, we have reviewed the pricing of the sample transaction with CGN Group, and we have also reviewed the relevant government price document, where we noted that the pricing of the sample transaction with CGN Group had made reference to such relevant government price, which complied with the government price principle stipulated under the 2026-2028 Engineering Services Framework Agreement; (ii) for the market price principle, we have reviewed the pricing of the sample transaction with CGN Group, and we have also reviewed the relevant pricing document with independent third party, where we noted that the pricing of the sample transaction with CGN Group was no less favourable to the Group when compared to the pricing with independent third party, which complied with the market price principle stipulated under the 2026-2028 Engineering Services Framework Agreement; and (iii) for the agreed price principle, we have reviewed the cost plus margin of the sample transaction with CGN Group, and we have also reviewed the relevant margin with independent third party, where we noted that the cost plus margin of the sample transaction with CGN Group was no less favourable to the Group when compared to the margin with independent third party, which complied with the agreed price principle stipulated under the 2026-2028 Engineering Services Framework Agreement.

Having considered, in particular, (i) our review of the pricing terms of 2026-2028 Engineering Services Framework Agreement, which shall in essence be no less favourable than those with the Independent Third Parties; (ii) the internal control measures of the Group, particularly the review of, where applicable, the government price and the prices with the Independent Third Parties; and (iii) the track record of compliance where the independent auditors of the Company and the independent non-executive Directors had reviewed and will continue to review the Continuing Connected Transactions of the Group, we are of the view that (i) the Group has sufficient internal control measures for governing the 2026-2028 Engineering Services Framework Agreement; and (ii) the terms of the 2026-2028 Engineering Services Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The proposed annual caps

The following table sets out (i) the historical actual transaction amounts of the Agreement Currently in Force for each of the years ended December 31, 2023 and 2024; (ii) the current approved annual cap of the Agreement Currently in Force for the year ending December 31, 2025; and (iii) the proposed annual caps of 2026-2028 Engineering Services Framework Agreement for each of the years ending December 31, 2026, 2027 and 2028.

	Historical actual transaction amounts		Current approved annual cap	Proposed annual caps		
	For the year ended		For the	For the year ending 31 December		
	31 December 2023	2024	31 December 2025	2026	2027	2028
Total fees received/ receivable from CGN Group (in RMB million)	16,740	17,188	43,111	33,600	31,400	32,000

We note that the historical actual transaction amounts for each of the years ended December 31, 2023 and 2024 was approximately RMB16,740 million and RMB17,188 million, respectively, representing an annual growth of approximately 3%, and the proposed annual caps for each of the years ending December 31, 2026, 2027 and 2028 is RMB33,600 million, RMB31,400 million and RMB32,000 million, respectively. Regarding the potential increase from around the level of RMB17,000 million in years 2023 and 2024 to the level of around RMB31,000 million to RMB34,000 million in years 2026, 2027 and 2028 (the “**Increase**”), we have reviewed the breakdown of the proposed annual caps and we note that the higher level of expected transaction amounts in the coming years are mainly attributable to the engineering services related to several nuclear power plant construction projects in the PRC. Accordingly, we have further reviewed the projects with the largest estimated transaction amounts (the “**Large Projects**”), where the Large Projects have an aggregate estimated transaction amount of approximately RMB28,780 million, RMB29,128 million and RMB31,310 million, representing approximately 86%, 93% and 98% of the proposed annual caps, for each of the years ending 31 December 2026, 2027 and 2028, respectively, being our review coverage. We note that service agreements have already been entered into for some of these Large Projects, where these agreements state the breakdown of the transaction amount for every upcoming year. Accordingly, we have reviewed such agreements that aggregately accounts for approximately RMB14,830 million, RMB12,303 million and RMB6,960 million, representing approximately 44%, 39% and 22% of the proposed annual caps, for each of the years ending 31 December 2026, 2027 and 2028, respectively, where we note that the estimated transaction amounts for these Large Projects are generally in line with the contractual amounts as stated in the agreements for the respective years. For the other Large Projects that service agreements have not yet been entered into, we have (i) reviewed government websites to ensure the

development of these Large Projects are actual and ongoing; and (ii) reviewed the transaction amounts of projects with comparable scale in terms of wattage capacity of the power plant, where either transaction amount had been incurred with the Group or service agreements had been entered into with the Group (i.e. the aforementioned service agreements of the Large Projects with comparable wattage capacity), and we note that the estimated transaction amounts for each year of these Large Projects are generally in line with those of the comparable projects. In respect of our aforementioned review, we were not aware of any material matter that caused us to doubt the fairness and reasonableness of the estimated transaction amounts for the reviewed projects.

Moreover, regarding the nuclear industry, we have reviewed the report titled “*The Path to a New Era for Nuclear Energy*” dated January 2025 (the “**Industry Report**”) that was published by the International Energy Agency (國際能源署), where we understand from the Industry Report that (i) the demand for electricity is rising fast, not only for conventional uses such as light industry or air conditioning, but also in new areas such as electric vehicles, data centres and artificial intelligence; (ii) nuclear power produces just under 10% of global generation and is the second-largest source of low-emissions electricity today after hydropower; (iii) building a nuclear reactor has taken an average of seven years, but has exceeded a decade in some cases; (iv) 63 nuclear reactors with a combined power capacity of 71 gigawatt were under construction globally, out of which 29 reactors with a total capacity of 33 gigawatt were in the PRC as of the end of 2024; and (v) the PRC is on course to overtake both the United States and European Union in installed nuclear power capacity by 2030, where the installed nuclear power capacity of the PRC is expected to increase from approximately 57 gigawatt in 2023 to approximately 101 gigawatt in 2030 in the stated policies scenario, representing a compound annual growth rate of approximately 9% during the period. Hence, the positive industry prospect is a supportive factor for the Increase.

In addition, we note that the historical actual transaction amount for the year ended December 31, 2024 already accounted for more than half of the highest proposed annual cap (being the proposed annual cap for the year ending December 31, 2026).

Taking into account, in particular, (i) the proposed annual caps provides flexibility for the Group to further generate revenue via the provision of the Engineering Services; (ii) our review of the major nuclear projects underlying the Increase, particularly the significant proportion of the estimated transaction amounts underlying the proposed annual caps that we have reviewed; (iii) the nuclear power industry in the PRC is expected to grow; and (iv) the historical actual transaction amount for the year ended December 31, 2024 already accounted for more than half of the highest proposed annual cap, we consider the proposed annual caps for the 2026-2028 Engineering Services Framework Agreement to be fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the entering into of the 2026-2028 Engineering Services Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. We are also of the view that the terms of the 2026-2028 Engineering Services Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and, together with the relevant proposed annual caps, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves advise, the Independent Shareholders to vote in favour of the ordinary resolution(s) to approve the 2026-2028 Engineering Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) at the 2024 AGM.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited



Kenneth Yam
Executive Director



Roger Tang
Director

Note: Mr. Kenneth Yam has been a Responsible Officer and Mr. Roger Tang has been a Representative of Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Both of them have extensive experience in the corporate finance industry and have participated in the provision of independent financial advisory services for numerous connected transactions involving listed companies in Hong Kong.