



SOMERLEY CAPITAL LIMITED

20/F., China Building, 29 Queen's Road Central, Hong Kong

Telephone: 2869 9090 Fax: 2526 2032 E-Mail: somerley@somerley.com.hk

13 November 2024

To: The Independent Shareholders and the Independent Board Committee

Dear Sirs,

**CONNECTED TRANSACTION
ISSUE OF NEW SHARES TO A CONNECTED PERSON
UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription Agreement and the transaction contemplated thereunder (the **"Transactions"**). Details of the aforesaid transaction are set out in the letter from the Board contained in the circular of the Company (the **"Circular"**) to its Shareholders dated 13 November 2024, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

On 23 October 2024, the Board announced that (i) the Company and Merrill Lynch (Asia Pacific) Limited as the placing agent (the **"Placing Agent"**) entered into the placing agreement (the **"Placing Agreement"**) pursuant to which the Company has agreed to appoint the Placing Agent, and the Placing Agent has agreed to act as the agent of the Company to purchase or procure purchasers to purchase the 198,500,000 new Shares (the **"Placing Share(s)"**) at the placing price of HK\$19.70 per Share (the **"Placing Price"**) upon the terms and subject to the conditions set out in the Placing Agreement (the **"Placing"**); and (ii) the Company entered into the Subscription Agreement with the Subscriber, pursuant to which Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue 168,114,000 Subscription Shares at the Subscription Price of HK\$19.70 for each Subscription Share. As disclosed in the Company's announcement dated 30 October 2024, the Placing was completed.



As at the Latest Practicable Date, the Subscriber is directly interested in 902,000 Shares, representing approximately 0.02% of the total number of issued Shares. Given that the Subscriber is a wholly-owned subsidiary of CRH (which is a controlling shareholder and a connected person of the Company under the Listing Rules) which in turn is also indirectly interested in 3,027,003,337 Shares, representing approximately 60.43% of the total number of issued Shares directly held by CRH (Power) Limited, the Subscriber is an associate of CRH and a connected person of the Company under the Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company and is subject to the announcement, circular, Independent Shareholders' approval and reporting requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. LEUNG Oi-sie, Elsie, Dr. CH'IEN Kuo Fung, Raymond, Mr. SO Chak Kwong, Jack and Mr. YANG Yuchuan, has been established to make a recommendation to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated or connected with the Company, the Subscriber or their respective core connected persons or associates. In the past two years prior to this appointment, save for the appointment as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to a proposed spin-off of its subsidiary and the transactions contemplated therein, as set out in the circular issued by the Company to the Shareholders dated 21 June 2023 and the engagement as an independent financial adviser to a fellow subsidiary of the Company in October 2022 in relation to a continuing connected transaction, we did not have any other relationship with or any interests in the Company, the Subscriber or their respective core connected persons, associates, close associates or any party acting or presumed to be acting in concert with any of them that could reasonably be regarded as relevant to our independence nor have had any other engagement with the Company. Apart from normal professional fees payable to us in connection with the aforementioned past engagements and this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Subscriber or their respective core connected persons or associates. Accordingly, we are considered eligible to give independent advice on the Transactions under Listing Rules 13.84.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the "**Management**") and the respective professional advisers of the Company, which we have assumed to be true, accurate and complete. We have reviewed information on the Company, including but not limited to, the Subscription Agreement, annual reports of the Company for years ended 31 December 2022 ("**FY2022**") (the "**2022 Annual Report**") and 2023 ("**FY2023**") (the "**2023 Annual Report**") and interim report of the Company for the six months ended 30 June 2024 ("**1H2024**") (the "**2024 Interim Report**", together with the 2022 Annual Report and the 2023 Annual Report, the "**Reports**") and other information contained in the Circular.



In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Group and have assumed in relation to the facts to be true, accurate and complete in all material aspects and in relation to any opinions to be honestly held at the time they were made and will remain, in relation to the facts to be true, accurate and complete in all material aspects and in relation to any opinions to be honestly held, up to the date of the EGM. We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group and the Subscriber nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Transactions, we have considered the following principal factors and reasons:

1. Information on the Group

1.1 Principal business of the Group

The Group is principally engaged in the investment, development, operation and management of wind farms, photovoltaic power plants, hydro-electric power plants and other clean and renewable energy projects and coal-fired power plants in China. The two segments of the Group are (i) thermal power (inclusive of coal-fired and gas-fired power); and (ii) renewable energy (inclusive of wind power, photovoltaic power and hydro power).

1.2 Financial information of the Group

Set out below is the summary of the Group's audited financial performance for the three years ended 31 December 2021, 2022 and 2023 and for the six months ended 30 June 2023 and 2024, as extracted from the 2022 Annual Report, the 2023 Annual Report and 2024 Interim Report respectively:

	Six months ended 30 June		Year ended 31 December		
	2024	2023	2023	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>51,119,684</u>	<u>51,483,669</u>	<u>103,334,322</u>	<u>103,305,097</u>	<u>90,414,166</u>
Total operating expenses	<u>(40,265,580)</u>	<u>(42,976,820)</u>	<u>(87,380,156)</u>	<u>(93,919,734)</u>	<u>(87,105,093)</u>
Other income	865,308	953,651	2,029,731	1,981,567	2,812,146
Other gains and losses	<u>1,547,025</u>	<u>1,034,810</u>	<u>214,499</u>	<u>2,184,149</u>	<u>(92,079)</u>



	Six months ended 30 June		Year ended 31 December		
	2024	2023	2023	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating profit	13,266,437	10,495,310	18,198,396	13,551,079	6,029,140
Finance costs	(2,070,242)	(2,102,700)	(4,240,637)	(3,890,192)	(3,759,788)
Share of results of associates and joint ventures	821,616	299,568	1,541,338	(199,413)	122,064
Profit before income tax	12,017,811	8,692,178	15,499,097	9,461,474	2,391,416
Income tax expense	(2,064,698)	(1,613,588)	(3,388,602)	(1,905,574)	(955,001)
Profit for the period/year	9,953,113	7,078,590	12,110,495	7,555,900	1,436,415
Profit for the period/year attributable to owners of the Company	9,362,748	6,740,100	11,003,283	7,042,478	2,137,849

As shown above, the Group reported a relatively steady turnover during the past three financial years and the six months ended 30 June 2024. In FY2022, the Group reported turnover of approximately HK\$103,305.1 million, representing an increase of approximately 14.3% from approximately HK\$90,414.2 million in 2021. As stated in the 2022 Annual Report, the increase in turnover of the Group was mainly attributable to (i) a year-on-year increase of around 20.2% in the average on grid tariff (tax exclusive) of consolidated coal-fired power plants; (ii) a year-on-year increase of 4.1% in net generation volume of consolidated power plants; (iii) a year-on-year increase of around 13.8% in the average price (tax exclusive) of the sales of heat supply of consolidated power plants; and (iv) a year-on-year increase of around 6.4% in the sales of heat supply of consolidated power plants. Turnover of the Group in FY2023 marginally increased by approximately 0.03% to approximately HK\$103,334.3 million as compared to that for the previous year, mainly due to (i) a year-on-year increase of around 4.7% increase in net generation volume of consolidated power plants; and (ii) a year-on-year increase of 2.1% in the average price of heat sales from consolidated power plants. For 1H2024, the Group reported turnover of approximately HK\$51,119.7 million, representing a decrease of approximately 0.7% from the corresponding period in 2023. This was mainly attributable to the increase in net generation volume of consolidated power plants and sales volume of heat generation of consolidated power plants in the first half year of 2024, partially offset by (i) a year-on-year decrease of 3.0% in average on-grid tariff (tax exclusive) of consolidated coal-fired power plants; and (ii) a year-on-year decrease of 1.9% in average on-grid tariff (tax exclusive) of consolidated wind power projects.



Operating profit of the Group and profit attributable to owners of the Company increased by approximately 124.8% and approximately 229.4% for the year ended 31 December 2022, respectively, as compared to those for the prior year, which was chiefly due to a year-on-year increase in the average on-grid tariff (tax exclusive) of coal-fired power plants and profit contribution from newly invested projects.

In FY2023, the Group reported operating profit of approximately HK\$18,198.4 million, representing an increase of around 34.3% from approximately HK\$13,551.1 million in 2022. Such increase was mainly due to (i) a year-on-year decrease in the unit price of standard coal of consolidated coal-fired power plants; and (ii) profit contribution from newly commissioned projects; which was offset by the effects of a year-on-year decrease in the average on-grid tariff of consolidated wind energy projects. The profit attributable to owners of the Company increased from approximately HK\$7,042.5 million in 2022 to approximately HK\$11,003.3 million in 2023, representing a year-on-year increase of around 56.2%, which was mainly caused by the same reasons in line with the increase of operating profit as mentioned above and due to profit of coal-fired power associates and profit of the joint venture power enterprises resulting from a decrease in fuel cost.

Despite the slight decrease in turnover in 1H2024, the operating profit of the Group grew by around 26.4% to approximately HK\$13,266.4 million as compared to that for the corresponding period in 2023, which was mainly attributable to (i) a year-on-year decrease in the unit cost of standard coal in consolidated coal-fired power plants; (ii) profit contribution from newly invested projects; (iii) bargain purchase gain on acquisition of the Guangxi Hezhou Thermal Power Project; and (iv) a decrease in impairment losses. The profit attributable to owners of the Company for the first half of 2024 amounted to approximately HK\$9,362.7 million, representing an increase of around 38.9% as compared to HK\$6,740.1 million in the first half of 2023, which was due to the increase in operating profit as mentioned above.

Set out below is the summary of the Group's financial position as at 31 December 2023 and 30 June 2024, as extracted from the 2024 Interim Report:

	As at 30 June 2024 HK\$'000	As at 31 December 2023 HK\$'000
Non-current Assets		
Property, plant and equipment	222,447,199	215,752,142
Other non-current assets	61,811,254	57,026,442
	<u>284,258,453</u>	<u>272,778,584</u>



	As at 30 June 2024 HK\$'000	As at 31 December 2023 HK\$'000
Current Assets		
Inventories	6,178,688	4,016,944
Trade receivables, other receivables and prepayments	45,573,176	40,467,098
Pledged and restricted bank deposits	448,407	418,538
Cash and cash equivalents	9,958,336	4,082,972
Other current assets	361,117	631,854
	<u>62,519,724</u>	<u>49,617,406</u>
Current Liabilities		
Borrowings	42,138,607	33,364,682
Trade payables, other payables and accruals	34,483,526	36,424,348
Amount due to associates and joint ventures	1,866,964	738,475
Amount due to other related companies	5,878,654	10,868,925
Other current liabilities	1,901,011	2,665,824
	<u>86,268,762</u>	<u>84,062,254</u>
Net current liabilities	<u>(23,749,038)</u>	<u>(34,444,848)</u>
Total assets less current liabilities	<u>260,509,415</u>	<u>238,333,736</u>
Non-current Liabilities		
Borrowings	141,049,124	125,827,123
Lease liabilities	2,902,113	2,020,456
Other long-term payables	3,079,626	2,945,310
Other non-current liabilities	2,862,044	2,993,706
	<u>149,892,907</u>	<u>133,786,595</u>
Total Equity		
Equity attributable to owners of the Company	90,467,770	84,973,689
Non-controlling interests	9,484,467	8,909,181
Perpetual capital securities holders	10,664,271	10,664,271
	<u>110,616,508</u>	<u>104,547,141</u>



Total non-current assets of the Group as at 31 December 2023 and 30 June 2024 mainly comprised of property, plant and equipment. Total non-current assets increased from approximately HK\$272,778.6 million as of 31 December 2023 to approximately HK\$284,258.5 million as at 30 June 2024. Such increase was mainly attributable to the increase in the balance of property, plant and other receivables and prepayments.

Total current assets of the Group as at 31 December 2023 and 30 June 2024 mainly comprised of cash and cash equivalents, inventories and trade receivables, other receivables and prepayments. Total current assets increased from approximately HK\$49,617.4 million as of 31 December 2023 to approximately HK\$62,519.7 million as of 30 June 2024. The increase was mainly resulted from the increases in trade and other receivables and prepayments from approximately HK\$40,467.1 million as at 31 December 2023 to approximately HK\$45,573.2 million as at 30 June 2024 and cash and cash equivalents from approximately HK\$4,083.0 million as at 31 December 2023 to approximately HK\$9,958.3 million as at 30 June 2024.

Current liabilities of the Group mainly comprised of the borrowings and trade and other payables and accruals as at both 31 December 2023 and 30 June 2024. Current liabilities of the Group increased slightly from approximately HK\$84,062.3 million as at 31 December 2023 to approximately HK\$86,268.8 million as at 30 June 2024, mainly due to the increase by approximately 26.3% in borrowings of the Group from approximately HK\$33,364.7 million as at 31 December 2023 to HK\$42,138.6 million as at 30 June 2024, off set by the decrease in trade and other payables and accruals of the Group by around 5.3% from approximately HK\$36,424.3 as at 31 December 2023 to approximately HK\$34,483.5 as at 30 June 2024.

Based on 2023 Annual Report and the 2024 Interim Report, the Group's gearing ratio, which is equivalent to net debt (balance of borrowings at the end of the period – cash and cash equivalents at the end of the period – balance of pledged bank balance at the end of the period) divided by total equity at the end of the period, was around 153% as at 31 December 2023 and 156% as at 30 June 2024. The Group's current ratio was approximately 0.59 as at 31 December 2023 and approximately 0.72 as at 30 June 2024.

As at 31 December 2023 and 30 June 2024, total equity attributable to owners of the Company was approximately HK\$84,973.7 million and HK\$90,467.8 million respectively. Based on the total number of issued Shares as at 30 June 2024 of 4,810,443,740, total equity attributable to owners of the Company per Share was approximately HK\$18.81 as at 30 June 2024.



2. Reasons for the Subscription Agreement

2.1 Reasons for the Subscription Agreement

As disclosed in the Circular, the Subscription is being undertaken to further enlarge the Shareholders' equity base of the Company, which is also an appropriate window for the Subscriber to subscribe for further Shares to demonstrate its confidence in the Company's long-term business development and prospects. In particular, capital expenditures of the Group during the recent years were relatively high and resulting in higher gearing ratio due to the Group's plan to vigorously develop new energy in the 14th Five-year Plan period (i.e. from 2021 to 2025). The Directors have also discussed with various major banks of the Company to assess the costs of bank borrowings and considered other forms of fund-raising methods for the Group, including debt financing and equity financing, before entering into the Subscription Agreement. Having assessed the gearing ratio of the Company, the ongoing financing costs associated with debt financing alternatives and the potential dilution of the shareholding interests of the public shareholders by approximately 1.28% as a result of the Subscription (for details, please refer to the subsection headed "EFFECT ON THE SHAREHOLDING STRUCTURE" in the letter from the board in the Circular), the Directors consider that the aforesaid dilution is acceptable and the Subscription is an appropriate fund raising method available to the Group to reduce the gearing ratio of the Group with the support of the CRH Group.

Other than the factors as set out above, considering the recent prevailing market conditions such as the uncertain future outlook in different industries, the recent fluctuation in the Hong Kong stock market and the trend of the market price of the Shares (which recorded an average closing price of approximately HK\$18.97 per Share for the 12 months before the date of the Subscription Agreement), the Directors therefore consider that the Subscription would be appropriate in order to replenish the Company's cash resources to satisfy the funding needs of the Group in order to reduce the gearing ratio and interest expenses of the Group for the above intended purposes and therefore to optimize the Company's capital structure, which would be important for the promotion of the Group's long-term development and success. The Directors also consider the terms of the Subscription Agreement to be fair and reasonable in the interests of the Company and the Shareholders as a whole and that the Subscription Agreement is entered into upon normal commercial terms following arm's length negotiations between the Company and the Subscriber.

Based on the above, we understand that the Company has been exploring various options to raise capital and considers the Subscription by the Subscriber as the most efficient way to raise capital in order to maintain a sufficient cash position of the Group and to meet its current liabilities and to enhance the capital base of the Company to lay a more solid foundation for future development. The Subscription by the Subscriber, which is a wholly-owned subsidiary of CRH (which is a controlling shareholder and a connected person of the Company under the Listing Rules), also reflects its confidence in the Company's long-term business development and prospects.



As further disclosed in the Circular, the Company intends to use all of the estimated net proceeds of the Subscription by the end of 2024 to repay certain financial liabilities including bank borrowings and other payables of the Company.

As discussed in the section headed “1.2 Financial information of the Group” above, as at 30 June 2024, the Company’s cash and cash equivalents amounted to approximately HK\$9,958.3 million, its short-term loan and long-term loan amounted to HK\$42,139 million and HK\$139,953 million respectively, and the Group’s gearing ratio was around 156% as at 30 June 2024. We consider that the Subscription can diversify its fund-raising channels through conducting the Placing and the Subscription to reduce its reliance on short-term loans, which helps to improve the Company’s liquidity position and to reduce costs. We also concur with the Group’s view that the Subscription is beneficial to the Group in strengthening its capital base and improving the financial position of the Company by settling part of the indebtedness which can lower the Group’s gearing ratio in the view that, upon the completion of the Placing and the Subscription and the application of the relevant proceeds for financial liabilities repayment as disclosed in the Circular, the Group’s gearing ratio is expected to decrease from approximately 156% as at 30 June 2024 to approximately 141%. Accordingly, we are of the view that the entering into of the Subscription is fair and reasonable so far as the Company and its Shareholders as a whole is concerned.

2.2 Financing alternatives

We note from the Company that it has considered alternative fund-raising methods, including debt financing and equity financing, however, resolved to proceed with the Placing and the Subscription.

We understand from the Company that the alternative equity financing methods (as compared with Placing and/or Subscription) will require a relatively lengthy process including but not limited to, (i) the preparation of more requisite compliance and legal documentation such as announcements, circulars, prospectus and application forms etc.; (ii) more administrative arrangements will be required as more public Shareholders may be involved; and (iii) administrative costs involved would also be higher due to the regulation needs.

We have further discussed and understand from the Management that the Company has also explored the possibility of debt financing. Considering the existing debt level and gearing ratio of the Company and the associated ongoing financing costs, the Directors are of the view that in order to balance the financing structure and reduce the future debt financing risk of the Company, the higher gearing ratio would not be in the interests of the Company for the long run.

After considering all the aforementioned alternatives, the Company resolved to proceed with the Subscription by the end of 2024 to repay certain financial liabilities including bank borrowings and other payables of the Company. At the same time, the Management considers that the issuance of new Shares to the Subscriber provides an efficient means of raising capital for the Group’s immediate needs, and the Subscription represents the Subscriber’s continued support for the Company’s development and future growth.



Given that (i) the Subscription is expected to improve the gearing position of the Group upon completion of the Subscription, in particular, the enhancement in working capital, cash position and net asset value of the Group; and (ii) the Subscription Price is considered fair and reasonable as further discussed in the section headed “4. The Subscription Price” below, the Subscription is considered as an appropriate and efficient mean for the Group to raise funds among other fund raising alternatives during the relevant time.

3. Principal terms of the Subscription Agreement

3.1 Key terms of the Subscription Agreement

On 23 October 2024, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which, the Subscriber has conditionally agreed to subscribe, and the Company has conditionally agreed to allot and issue the Subscription Shares at the Subscription Price of HK\$19.70 per Subscription Share. Based on the Subscription Price and 168,114,000 Subscription Shares to be subscribed by the Subscriber, the total subscription monies payable by the Subscriber to the Company pursuant to the Subscription Agreement amount to approximately HK\$3,311,845,800.

The Subscription Price was determined with reference to the prevailing market price of the Shares (which recorded an average closing price of approximately HK\$18.97 per Share for the past twelve months before the date of the Subscription Agreement), and was equivalent to the placing price of the placing shares under the Placing which was a reflection of the market demand for the Shares and therefore, was indicative of the market valuation of the Company. The Directors consider that the Subscription Price and the terms of the Subscription are fair and reasonable under the current market conditions (such as the uncertain future outlook in different industries and the recent fluctuation in the Hong Kong stock market), and are in the best interests of the Company and the Shareholders as a whole.

3.2 Conditions precedent

The closing of the Subscription is conditional upon the satisfaction of the following conditions:

- (i) the Listing Committee granting approval (either unconditionally or subject only to conditions to which the Company does not reasonably object) for the listing of, and permission to deal in, the Subscription Shares; and
- (ii) the passing by the Independent Shareholders of all necessary resolutions at the EGM in compliance with applicable laws and the Listing Rules to approve the grant of the specific mandate to allot and issue the Subscription Shares and the transaction contemplated under the Subscription Agreement.

None of the conditions can be waived under the Subscription Agreement.



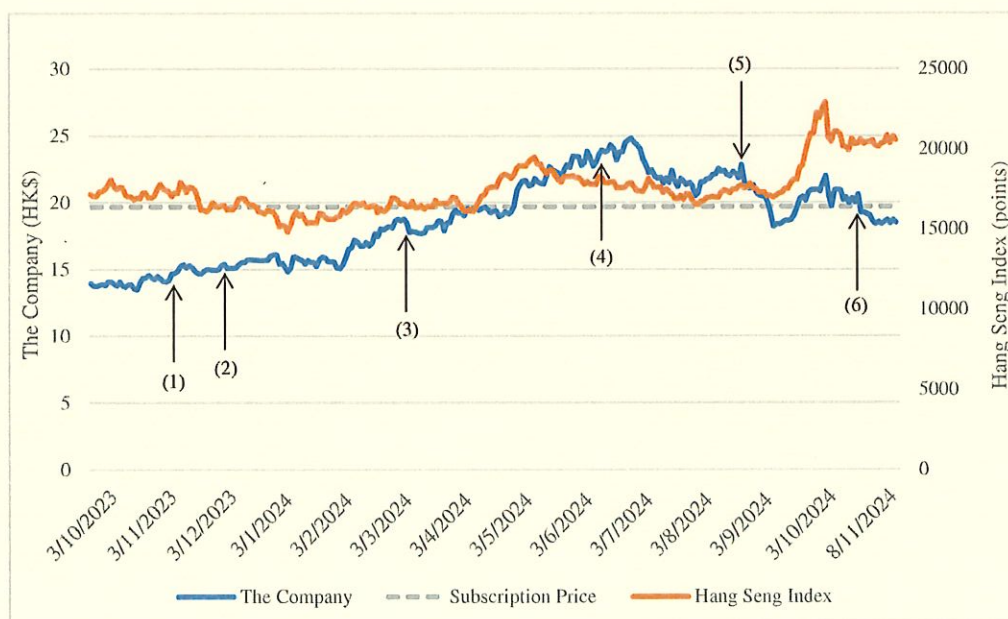
4. The Subscription Price

4.1 Evaluation of the Subscription Price

Pursuant to the Subscription Agreement, 168,114,000 Subscription Shares at the Subscription Price of HK\$19.70 each will be issued by the Company upon completion of the Subscription.

(i) Historical Share Performance

Set out below is a chart reflecting movements in the closing prices of the Shares from 3 October 2023, being approximately 13 months before the date of the Subscription Agreement, up to and including the Latest Practicable Date, which represented a sufficient period of time to provide a general overview on the recent market performance of the Shares (the “**Review Period**”).



Source: Website of the Stock Exchange



The Company published a number of announcements during the Review Period, and the relevant announcements are summarised as follows:

Reference No.	Date	Details of the announcements
(1)	9/11/2023	Declaration of special dividend
(2)	19/12/2023	November 2023 update on power plant net generation figures
(3)	20/3/2024	Announcement of annual results for the year ended 31 December 2023; Announcement of final dividend for the year ended 31 December 2023; and February 2024 update on power plant net generation figures
(4)	18/6/2024	May 2024 update on power plant net generation figures
(5)	27/8/2024	Announcement of interim results for 2024; and Announcement of interim dividend for the six months ended 30 June 2024 and Closure of Register of Members
(6)	23/10/2024	Placing of new shares under the general mandate and connected transaction involving subscription of new shares under specific mandate

From the chart above, during the period from 3 October 2023 to the Last Trading Date (both dates inclusive) (the “**Pre-Announcement Period**”), being roughly 13 months immediately before the date of the Subscription Agreement, the Shares price closed in a wide range between HK\$13.59 and HK\$25.00 per Share with an average of approximately HK\$18.70 per Share. The average Share closing price per share for the entire Review Period was approximately HK\$18.71.

As shown in the chart above, the closing price of the Shares has led a general increasing trend since 3 October 2023 before reaching its peak during the Review Period of HK\$25.00 per Share on 4 July 2024.



Subsequent to 4 July 2024, closing price of the Shares depicted a gradual downward trend to HK\$20.65 each on 5 August 2024. Since then Share closing price showed a slight recovery and until the Company published its interim result for six months ended 30 June 2024 on 27 August 2024, the closing price of the Shares started to experience a decline again from HK\$23.00 per Share on 27 August 2024 to HK\$18.34 per Share on 11 September 2024, representing a decrease of approximately 20.3%. We have discussed such share price movement with the Management and understand that the Company is not aware of any particular reason for the Share price decrease. In this regard, we have reviewed and noted that the movements in the Hang Seng Index showed a similar decline by approximately 7.4% during the period between 4 July 2024 and 11 September 2024.

Since then closing prices of the Shares fluctuated largely in line with the movement of the Hang Seng Index and was within the range of HK\$18.50 and HK\$22.75 per Share between the period from 12 September 2024 up to and including the Last Trading Date. Following the publication of the announcement in relation to the Placing and the Subscription Agreement in the morning on 23 October 2024, the closing price of the Shares dropped by approximately 6.6% to HK\$19.38 per Share on the same day. The closing price per Share then fluctuated within a tight range between HK\$18.54 per Share and HK\$19.38 per Share between 23 October 2024 and the Latest Practicable Date, and was HK\$18.62 per Share as at the Latest Practicable Date.

As disclosed in the letter from the Board, the Subscription Price of HK\$19.70 per Subscription Share represents:

- (i) a discount of approximately 5.06% to the closing price of HK\$20.75 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of approximately 3.48% to the average closing price of approximately HK\$20.41 per Share as quoted on the Stock Exchange for the last five (5) consecutive Trading Days prior to and including the Last Trading Date;
- (iii) a discount of approximately 3.98% to the average closing price of approximately HK\$20.52 per Share as quoted on the Stock Exchange for the last ten (10) consecutive Trading Days prior to and including the Last Trading Date; and
- (iv) a premium of approximately 4.73% to the net asset value per Share of approximately HK\$18.81 (based on the total equity attributable to owners of the Company of approximately HK\$90,467.77 million and 4,810,443,740 Shares in issue as at 30 June 2024).



We note that the Subscription Price represents a premium of around 5.35% over the average closing price per Share during the Pre-Announcement Period. We also note that the Company has announced the Placing in the Announcement and the Subscription Price is equivalent to the Placing Price of HK\$19.70 per Placing Share under the Placing which was completed on 30 October 2024.

We consider that Placing Price is a reflection of the market demand for the Shares and therefore, is indicative of the market valuation of the Company. As such, in light of the completion of the Placing and the Subscription Price being equal to the Placing Price, and that the Subscription Price represents a premium over the equity attributable to owners of the Company as at 30 June 2024, we consider the determination of the Subscription Price primarily based on the Placing Price is reasonable.

(ii) Comparison with recent issue of shares

To further assess the fairness and reasonableness of the Subscription Price, we have conducted a comparable analysis through identifying companies listed on the Main Board of the Stock Exchange (excluding pro-longed suspension company), based on the criteria that (i) the subscriptions were announced since 2 January 2024, being a roughly ten-month period up to and including the Latest Practicable Date, which we believe it representing a reasonable and meaningful period to reflect the recent market conditions; (ii) the subscription for cash under specific mandate by connected person(s) of the respective listed issuers; and (iii) the shares were mainly issued for fund raising purpose instead of (a) consideration issues for transactions such as acquisitions; (b) for loan capitalization purpose; (c) as part of debt restructuring or group restructuring or involving a change in control; (d) share award or for emolument; and (e) excluding issues of A shares or domestic shares. Based on the above criteria, we have identified an exhaustive list of 10 transactions (the “**Comparable Share Issues**”).

Despite the subject companies constituting the Comparable Share Issues may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and different reasons for their respective fund raising activities, we would still consider, in light of our selection criteria, capturing recent issue of shares by listed companies under similar market conditions and sentiments can provide Shareholders with a general reference on the recent market trend of this type of transaction in Hong Kong equity capital market. Based on the aforesaid, despite the large range of discount/premium represented by the respective issue price under the Comparable Share Issues, we regard the Comparable Share Issues being meaningful and representative samples for Shareholders to consider amongst the other factors in assessing the fairness and reasonableness of the Subscription Price. We would also consider the review period chosen to be fair and reasonable as it reflects the prevailing market environment.



Announcement Date	Listed Company	Stock Code	Subscription price per share (HK\$)	Number of subscription shares (shares)	Premium/ (discount) of the subscription price over/to the average closing price of the share for the last 5 consecutive trading days prior to and including the last trading day ^{note 1} (%)	Premium/ (discount) of the subscription price over/to the average closing price of the share for the last 10 consecutive trading days prior to and including the last trading day ^{note 1} (%)	Premium/ (discount) of the subscription price over/to the average closing price of the share for the last 10 consecutive trading days prior to and including the last trading day ^{note 1} (%)
12-Jan-24	ZO Future Group	2309	2.142	43,697,478	(15.0)	(11.41)	(10.23)
26-Jan-24	JL Mag Rare-Earth Co., LTD.	6680	8.19	26,895,424	10.38	6.57	N/A ^{note 2}
02-Feb-24	Virtual Mind Holding Company Limited	1520	0.10	800,000,000	(23.66)	(24.81)	(26.47)
09-Feb-24	Peking University Resources (Holdings) Company Limited	618	0.228	250,000,000	(9.52)	(19.03)	(21.60)
15-Mar-24	Apollo Future Mobility Group Limited	860	0.46	445,652,177	(9.80)	(16.36)	(16.21)
13-May-24	Labixiaoxin Snacks Group Limited	1262	0.11	85,518,388	(5.17)	(15.17)	(21.03)
13-May-24	Television Broadcast Limited	511	3.36	8,743,836	7.24	12.68	14.84
07-Jun-24	Wenye Group Holdings Limited	1802	0.055	237,600,000	(3.5)	(14.1)	(15.80)
08-Jul-24	Winshine Science Company Limited	209	0.20	23,000,000	(9.1)	(9.1)	(9.91)
13-Oct-24	Virtual Mind Holding Company Limited	1520	0.10	100,000,000	13.64	38.89	47.06



Announcement Date	Listed Company	Stock Code	Subscription price per share (HK\$)	Number of subscription shares (shares)	Premium/ (discount) of the subscription price over/to the average closing price of the share for the last 5 consecutive trading days prior to and including the last trading day ^{note 1}	Premium/ (discount) of the subscription price over/to the average closing price of the share for the last 10 consecutive trading days prior to and including the last trading day ^{note 1}
					(%)	(%)
				Average	(4.45)	(5.18)
				Maximum	13.64	47.06
				Minimum	(23.66)	(26.47)
The Subscription Shares			19.70	168,114,000	(5.06)	(3.48)

Note 1: Last trading day being the last trading day as disclosed and/or defined in the respective announcement(s) or the date of the subscription agreements as disclosed in the respective announcement(s).

Note 2: The average closing price for ten consecutive trading days of the corresponding transaction prior to and including the last trading day was equal to the subscription price per share of such transaction.

As shown in the table above, the discounts represented by the Subscription Price are within all the respective range of the premium/discount under the Comparable Share Issues prior to/on the last trading day, for the last 5 and 10 consecutive trading days immediately prior to and including the last trading day. Though the Subscription Price represents a slightly higher discount to the average discount of the Comparable Share Issues prior to/on the last trading day, it is close to such average discount of the Comparable Share Issues and also represents a less discount as compared to both the average discounts of the Comparable Share Issues for the last 5 and 10 consecutive trading days immediately prior to and including the last trading day. In addition, as discussed in section headed “4.1 Evaluation of the Subscription Price – (i) Historical Share Performance” above, whilst the Placing Price is a reflection of the market demand for the Shares and therefore is indicative of the market valuation of the Company, the Subscription Price being equal to the Placing Price and also representing a premium over the equity attributable to owners of the Company as at 30 June 2024 is therefore, in our view, fair and reasonable and is in line with the market.



5. Effect on the shareholding structure of the Company

As disclosed in the Circular, the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon the completion of the Subscription (assuming that there will be no further change in the issued share capital of the Company from the Latest Practicable Date to the completion of the Subscription) are set out below:

	As at the Latest Practicable Date, before the completion of the Subscription		Immediately after the completion of the Subscription	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Shareholders				
the Subscriber (<i>Note 3</i>)	902,000	0.02	169,016,000	3.26
CRH (Power) Limited (<i>Note 4</i>)	3,027,003,337	60.43	3,027,003,337	58.47
Subtotal	3,027,905,337	60.45	3,196,019,337	61.73
Other public Shareholders	1,981,038,403	39.55	1,981,038,403	38.27
Total:	<u>5,008,943,740</u>	<u>100.00</u>	<u>5,177,057,740</u>	<u>100.00</u>

Notes:

1. The above assumes there is no change to the issued share capital of the Company between the Latest Practicable Date and the date completion of the Subscription.
2. Certain figures and percentage figures included in the above table have been subject to rounding adjustments.
3. As at the Latest Practicable Date, before the completion of the Subscription, 902,000 Shares are beneficially owned by the Subscriber.
4. CRH (Power) Limited is a subsidiary of CRH, which is a 100%-owned subsidiary of CRC Bluesky Limited, which is in turn owned as to 100% by China Resources Inc. ("CRI"), which is in turn held as to 100% by China Resources Company Limited ("CRCL"). Each of CRH, CRCL, CRI and CRC Bluesky Limited is deemed by virtue of Part XV of the SFO to have the same interests in 3,027,003,337 Shares as those of CRH (Power) Limited.

As the Subscriber is a wholly-owned subsidiary of CRH, CRH, through its interest in the Subscriber, is interested in 902,000 Shares. Accordingly, each of CRCL, CRI and CRC Bluesky Limited is deemed by virtue of Part XV of the SFO to have the same interests in the 902,000 Shares as those of CRH.

As shown in the table above and assuming there will be no other change to the issued share capital of the Company other than the issue of the Subscription Shares on the completion of the Subscription, the shareholding in the Company held by the public Shareholders will be diluted by approximately 1.28% from 39.55% to 38.27% as a result of the Subscription.



Although the shareholding interest of the existing public Shareholders will be diluted, considering (i) the reasons for the Subscription Agreement as discussed under the section under “2. Reasons for the Subscription Agreement” above; and (ii) the terms of the Subscription Agreement, including the Subscription Price, being fair and reasonable as discussed under sections headed “4. The Subscription Price” above, we are of the view that the dilution effect on the shareholding of existing public Shareholders in the Company is acceptable.

6. Financial effects

As stated in the letter from the Board in the Circular, the net proceeds (after deducting professional fees and other related expenses estimated to be incurred by the Company in connection with the Subscription) to be received by the Company from the issue of the Subscription Shares is expected to be approximately HK\$3,310.16 million. As disclosed in the 2024 Interim Report, the Group had cash and cash equivalents and net asset value of approximately HK\$9,958.3 million and HK\$110,616.5 million respectively as at 30 June 2024. Immediately upon completion of the Subscription, it is expected that the cash position and net asset value of the Group will be enhanced with the amount of net proceeds of the Subscription to be received by the Company.

On 30 October 2024, the Company completed the Placing in which 198,500,000 Shares were placed to no less than six independent third parties under general mandate. The net proceeds from the Placing (after deducting all relevant fees, costs and expenses estimated to be incurred by the Company (including the Placing Agent’s commission (if any), the Stock Exchange trading fee and the transaction levies to be borne by the Company) are expected to be approximately HK\$3,886.63 million which will be utilised to increase cash reserves for operational and general corporate use, and to repay financial liabilities including bank borrowings and other payables of the Company. As further stated in the letter from the Board in the Circular, the Company intends to apply the net proceeds from the issue of the Subscription Shares to increase cash reserves for operational and general corporate use, and to repay financial liabilities including bank borrowings and other payables of the Company. Following the repayment of loans by the relevant proceeds from the Placing and the Subscription as disclosed in the Circular, it is expected that, based on the interim report for the six months ended 30 June 2024 of the Company, the net debt of the Group (being sum of current and non-current borrowings and loans from related parties less cash and cash equivalents, and pledged and restricted bank deposits) of the Group would decrease by approximately 4.17% and the gearing ratio (being the net debt divided by total equity at the end of the period) of the Group would decrease to around 141%.

As such, the Directors consider, and we concur, that the financial position of the Group is expected to be strengthened after completion of the Subscription.



7. Discussion

Having considered, in particular:

- (i) as discussed in sub-section headed “2.2 Financing alternatives” above, the Subscription is considered as an appropriate and efficient mean for the Group to raise funds among other fund raising alternatives considered;
- (ii) the Subscription Price is equal to the Placing Price and represents a premium over the average closing price per Share during the Pre-Announcement Period and the equity attributable to owners of the Company per Share as at 30 June 2024;
- (iii) the discounts represented by the Subscription Price are in line with those under the Comparable Share Issues; and
- (iv) as discussed in section headed “6. Financial effects” above, the Subscription is expected to strengthen the financial position of the Group upon completion of the Subscription,

we are of the view that the terms of the Subscription Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that, though the entering into Subscription Agreement is not in the ordinary and usual course of the business of the Company, the terms of the Subscription Agreement and the connected transaction contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interest of the Company and its Shareholders as a whole. We therefore advise that the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.