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Perennial Energy Holdings Limited
久泰邦達能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2798)

MAJOR TRANSACTION

PROPOSED INVESTMENT IN THE POWER GENERATION PROJECT

Capitalized terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 5 to 16 of this circular.

25 October 2023

CONTENTS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

"associate(s)"	has the same meaning as ascribed thereto in the Listing Rules
"Board"	the board of Directors of the Company
"Capital Commitment"	the amount of registered capital to be contributed by Jiutai Bangda to the Target Company, details of which are set out in the section headed "Letter from the Board – II. The Investment Cooperation Agreement – (e) Registered capital of the Target Company and total investment by Jiutai Bangda" in this circular
"Company"	Perennial Energy Holdings Limited (久泰邦達能源控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands, the Shares of which are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the same meaning as ascribed thereto in the Listing Rules
"Consideration"	the consideration for the Proposed Acquisition (i.e. RMB4,948,461)
"Deposit"	has the meaning as defined in the section headed "Letter from the Board – II. The Investment Cooperation Agreement – (e) Registered capital of the Target Company and total investment by Jiutai Bangda – (i) The Proposed Acquisition" in this circular
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group upon completion of the Proposed Acquisition
"Feasibility Study Report"	the feasibility study report on the Power Generation Project prepared by the Power Design Research Institute
"Group"	the Company and its subsidiaries

"Guizhou Bangda"	貴州邦達能源開發有限公司 (Guizhou Bangda Energy Development Co., Ltd.*), a company owned as to 90% and 10% by Mr. Yu Bangping (an executive Director) and Mr. Yu Bangcheng (the brother of Mr. Yu Bangping), respectively
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Investment Cooperation Agreement"	the investment cooperation agreement dated 25 August 2023 and entered into between Jiutai Bangda and the JV Partner, details of which are set out in the section headed "Letter from the Board – II. The Investment Cooperation Agreement" in this circular
"Jiutai Bangda"	貴州久泰邦達能源開發有限公司 (Guizhou Jiutai Bangda Energy Development Co., Ltd.*), a company established in the PRC with limited liability and is a wholly-owned subsidiary of the Company
"JV Partner"	中電建電力投資集團有限公司 (PowerChina Power Investment Corporation*), a company established in the PRC with limited liability
"Latest Practicable Date"	20 October 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Power China"	Power Construction Corporation of China Ltd.* (中國電力建設集團(股份)有限公司), a company established in the PRC and listed on the Shanghai Stock Exchange (SSE: 601669)

"Power Design Research Institute"	China Power Construction Group Guizhou Electric Power Design and Research Institute Co., Ltd.* (中國電建集團貴州電力設計研究院有限公司), a wholly-owned subsidiary of China Power Construction Corporation Co., Ltd.* (中國電力建設集團有限公司). It currently holds more than 20 relevant qualifications including National Class A Comprehensive Survey (國家勘察綜合類甲級), Power Industry Class A Design (電力行業設計甲級), Engineering Consulting Class A Credit (工程諮詢資信甲級), Power Engineering Supervision Class A (電力工程監理甲級), Surveying and Mapping Class A (測繪甲級), Environmental Engineering Design Service Capability Evaluation Class A (環境工程設計服務能力評價甲級), Engineering Cost Consultation Class A (工程造價諮詢甲級), and Construction Industry (Construction Engineering) Class A (建築行業(建築工程)甲級), etc
"Power Generation Project"	has the meaning as defined in the section headed "Letter from the Board – II. The Investment Cooperation Agreement – (c) Purpose" in this circular
"PRC"	The People's Republic of China, and for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Proposed Acquisition"	the proposed acquisition of the Target Interests by Jiutai Bangda from the JV Partner
"Proposed Investment"	the proposed investment in the Power Generation Project by Jiutai Bangda pursuant to the terms of the Investment Cooperation Agreement, which includes the Proposed Acquisition and the proposed injection of the Capital Commitment by Jiutai Bangda into the Target Company
"Public Listing Process"	the process for the proposed sale of the Target Interests by the JV Partner at the China Beijing Equity Exchange
"RMB"	Renminbi yuan, the lawful currency of the PRC
"SFO"	The Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with a nominal value of HK$0.01 each in the share capital of the Company

"Shareholder(s)"	holder(s) of the issued Share(s) from time to time
"Spring Snow"	Spring Snow Management Limited, the controlling shareholder (as defined in the Listing Rules) of the Company which directly holds 864,000,000 Shares, representing approximately 54.0% of the total issued share capital of the Company as at the Latest Practicable Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	中電建盤州低熱值煤發電有限公司 (PowerChina Panzhou Low Calorific Value Coal Power Generation Co., Ltd.*), a company established in the PRC with limited liability and is a wholly-owned subsidiary of the JV Partner as at the Latest Practicable Date
"Target Interests"	49% equity interests in the Target Company which are currently held by the JV Partner as at the date of this circular
"Valuation Report"	the valuation report issued by the Valuer in respect of the Target Interests, a copy of which is set out in Appendix V to this circular
"Valuer"	Valtech Valuation Advisory Limited
"%"	per cent.

* *The English transliteration of the Chinese name(s) in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

Perennial Energy Holdings Limited
久泰邦達能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2798)

Executive Directors:
Mr. Yu Bangping *(Chairman)*
Mr. Yu Zhilong *(Chief Executive Officer)*
Mr. Wang Shize
Mr. Li Xuezhong
Mr. Lau Kai Ming
Mr. Yu Xiao

Independent non-executive Directors:
Mr. Fong Wai Ho
Mr. Punnya Niraan De Silva
Ms. Cheung Suet Ting, Samantha
Mr. Wang Xiufeng

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Hong Kong

25 October 2023

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

PROPOSED INVESTMENT IN THE POWER GENERATION PROJECT

I. INTRODUCTION

References are made to the announcement of the Company dated 25 August 2023, 15 September 2023, 18 September 2023 and 19 September 2023. The purpose of this circular is to provide you with, among other things, further details of the Investment Cooperation Agreement and the transactions contemplated thereunder.

II. THE INVESTMENT COOPERATION AGREEMENT

On 25 August 2023 (after trading hours), Jiutai Bangda entered into the Investment Cooperation Agreement with the JV Partner, the principal terms of which are set out below:

(a) Date

25 August 2023

(b) Parties

(i) Jiutai Bangda

(ii) JV Partner

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the JV Partner and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

(c) Purpose

Pursuant to the Investment Cooperation Agreement, the parties shall jointly cooperate and invest in the Pannan Low Calorific Value Resources Comprehensive Utilization Power Generation Project* (盤南低熱值煤資源綜合利用發電項目) (the "**Power Generation Project**") through the Target Company.

The Power Generation Project involves the construction, development and operation of a coal-fired power plant comprising two (2) sets of 660MW ultra-supercritical circulating fluidized bed coal-fired generating units in Liupanshui City, Guizhou Province.

(d) Shareholding structure of the Target Company

Pursuant to the Investment Cooperation Agreement, subject to the fulfilment of the conditions precedent set out therein, upon completion of the Proposed Acquisition, the Target Company shall be held as to 49% by Jiutai Bangda and 51% by the JV Partner. The Target Company is expected to be an associate company of the Company and its results and net assets will be accounted for using the equity method in the consolidated financial statements of the Company after completion of the Proposed Acquisition.

(e) Registered capital of the Target Company and total investment by Jiutai Bangda

The total registered capital of the Target Company shall be RMB1,050 million. As at the Latest Practicable Date, the Target Company has a paid up capital of RMB10 million and the JV Partner is the sole shareholder of the Target Company.

(i) The Proposed Acquisition

On 19 July 2023, the JV Partner has entrusted the China Beijing Equity Exchange with the Public Listing Process for the proposed transfer of the Target Interests, representing 49% equity interests in the Target Company as at the Latest Practicable Date.

Pursuant to the terms and conditions of the Public Listing Process, upon the confirmation of Jiutai Bangda's qualification as an eligible bidder, Jiutai Bangda shall pay a deposit of RMB1.48 million (the "**Deposit**") to China Beijing Equity Exchange's designated bank account. If Jiutai Bangda is identified as the winning bidder, Jiutai Bangda and the JV Partner will execute an equity transfer agreement and Jiutai Bangda shall pay the Consideration to the designated bank account of the China Beijing Equity Exchange within five (5) business days after the aforesaid equity transfer agreement takes effect. The Deposit previously paid by Jiutai Bangda shall be regarded as part payment of the Consideration. Any sums paid by Jiutai Bangda into the designated bank account of the China Beijing Equity Exchange shall be held in escrow pending completion of the Proposed Acquisition.

On 28 August 2023, Jiutai Bangda submitted a bid for the Target Interests at a bidding price of RMB4,948,461 under the Public Listing Process and Jiutai Bangda was identified as the winning bidder on 18 September 2023.

(ii) The Proposed Capital Commitment

According to the Investment Cooperation Agreement, each of Jiutai Bangda and the JV Partner shall contribute the remaining registered capital (i.e. RMB1,040 million) in proportion to their equity interests in the Target Company in cash by four (4) instalments as follows:

	Amount to be contributed by Jiutai Bangda *RMB'000*	**Amount to be contributed by the JV Partner** *RMB'000*
By 31 October 2023 (in the case of the JV Partner)/Within five (5) business days after completion of the Proposed Acquisition (in the case of Jiutai Bangda)	93,100	96,900
By 31 March 2024	147,000	153,000
By 30 June 2024	147,000	153,000
By 31 March 2025	122,500	127,500
Total	509,600	530,400

The Group intends to finance (a) the Consideration of RMB4,948,461 by the internal resources of the Group; and (b) the Capital Commitment of RMB509.6 million partly by internal resources of the Group of approximately RMB359.6 million and partly through borrowings from an independent third party of approximately RMB150 million.

The Consideration and the Capital Commitment were arrived at after arm's-length negotiations between Jiutai Bangda and the JV Partner and are on normal commercial terms, with reference to, among others, the unaudited net asset value of the Target Company as at 30 June 2023, the business prospects of the Power Generation Project and the Feasibility Study Report, details of which are set out in the section headed "IV. Further Information on the Feasibility Study Report" in this Letter from the Board.

Having considered the capital budgeting and cash flow forecasting for the Target Company, details of which are set out in the section headed "Review of Capital Budgeting and Financial Planning" in Appendix V of this circular, as well as the Feasibility Study Report, the Company is of the view that the Capital Commitment of RMB509.6 million is fair and reasonable for the reasons set out below:

(aa) The capital budgeting and financial planning of the Power Generation Project were prepared by Power Design Research Institute whereby Power Design Research Institute made references to the "Methods and Parameters for Economic Evaluation of Construction Projects" (3rd edition) (《建設項目經濟評價方法與參數》(第三版)) and "Reference Cost Index for Limited Design of Thermal Power Projects (2020 level)" (《火電工程限額設計參考造價指標(2020年水準)》) for the source and details of the major parameters used in such capital budgeting and financial planning. The Valuer reviewed such capital budgeting and financial planning, updated the market parameters such as risk free rate, comparable company discount rate up to 30 June 2023 (the "**Valuation Date**") and replicated the financial planning of the Power Generation Project which demonstrated the feasibility of the Power Generation Project as at the Valuation Date. Given the Valuer has considered the relevant parameters and applied recognised evaluation methodologies as well as taken into account the prevailing industry standards, regulations and guidelines to ensure the accuracy and reliability of the projections, the Company is of the view that the capital budget and cash flow forecast are fair and reasonable.

(bb) According to the Feasibility Study Report, the total capital requirement for the Power Generation Project is approximately RMB5,250 million whereby the Target Company intends to finance it partly by capital contribution from its shareholders and partly by external borrowings. Given the Capital Commitment of RMB509.6 million is in proportion to the equity interests held by Jiutai Bangda in the Target Company upon completion of the Proposed Acquisition and that the Company is of the view that the capital budget and cash flow forecast of the Power Generation Project are fair and reasonable for the reasons set out in paragraph (aa) above, the Company considers that the Capital Commitment of RMB509.6 million is fair and reasonable.

(cc) The Company noted that in the Valuer's review of the capital budgeting analysis, a post-tax discount rate of 7.79% was used. Such rate was derived from the weighted average cost of capital by making reference to the comparable companies applied in the market approach and prevailing long-term borrowing rate in the PRC. By applying the post-tax discount rate of 7.79%, the Power Generation Project has a positive net present value of approximately RMB29 million whereas the project internal rate of return is approximately 7.81%, which is higher than the Company's required rate of return for undertaking an investment. As such, the Company is of the view that the Capital Commitment of RMB509.6 million is fair and reasonable.

(dd) The Feasibility Study Report sets out a thorough economic evaluation, costs analysis, financial performance assessment and competitive bidding capability analysis for the Power Generation Project, in particular:

- *Economic Evaluation*: The Feasibility Study Report includes an economic evaluation of the Power Generation Project, which takes into consideration factors such as the annual utilization of the power plant, internal rate of return, and electricity prices. The evaluation demonstrates favorable financial indicators, including a power purchase price lower than the benchmark price for newly constructed coal-fired power units in Guizhou Province. This indicates that the Power Generation Project has the potential to generate sufficient revenue to justify the Capital Commitment.

- *Cost Analysis*: The Feasibility Study Report includes a comprehensive cost analysis of the Power Generation Project which includes static investment and unit cost. The unit cost of the static investment for the Power Generation Project is estimated as RMB3,973/kW, and such cost are compared to reference cost indices to determine the appropriateness of the Power Generation Project's cost level. The analysis provides a basis for justifying the Capital Commitment by ensuring that the costs are reasonable and in line with industry standards.

- *Financial Performance Assessment*: The Feasibility Study Report assesses the financial performance of the Power Generation Project by considering financial indicators such as the total investment return rate and net profit rate of capital. These indicators help evaluate the Power Generation Project's profitability and potential return on investment. If the financial performance indicators demonstrate positive results and meet or exceed the expected benchmarks, it provides justification for the Capital Commitment.

- *Competitive Bidding Capability Analysis*: The Feasibility Study Report analyzes the Power Generation Project's competitiveness in the electricity market by comparing the on-grid electricity price to the benchmark price for coal-fired power units in the region. The Feasibility Study Report states that the Power Generation Project's electricity price is lower than the benchmark price, indicating that the project has competitive bidding capability. This suggests that the Power Generation Project is economically viable and justifies the Capital Commitment required.

As such, the positive findings and results of the Power Generation Project as disclosed in the Feasibility Study Report supports the economic viability and competitiveness of the Power Generation Project, thereby justifying the allocation of capital resources to the Power Generation Project.

(f) Board of directors of the Target Company

The board of directors of the Target Company shall consist of seven (7) directors, of which the JV Partner has the right to nominate four (4) directors, including the chairman of the board. Jiutai Bangda has the right to nominate two (2) directors and the remaining director shall be an employee director recommended by Jiutai Bangda and elected by the employees' congress of the Target Company.

(g) Supervisory board of the Target Company

The supervisory board of the Target Company shall consist of three (3) supervisors, of which each of the JV Partner and Jiutai Bangda has the right to nominate one (1) supervisor, where Jiutai Bangda's nominated supervisor shall be the chairman of the supervisory board and the remaining employee supervisor to be nominated and elected by the employees' congress of the Target Company.

(h) Senior management of the Target Company

Jiutai Bangda shall have the right to nominate the general manager and deputy manager of the Target Company and other members of the senior management team of the Target Company shall be recommended or nominated by the JV Partner according to the requirements for the allocation of leading cadres of state-owned enterprises.

(i) Coal supply to the Target Company

It is currently intended that the Target Company shall purchase coal from Jiutai Bangda or Guizhou Bangda for its electricity generation operations.

(j) Conditions precedent to the Proposed Acquisition

Completion of the Proposed Acquisition is conditional upon the following conditions precedent having been fulfilled:

(i) the Company has published the circular in relation to the Proposed Investment in accordance with the Listing Rules;

(ii) Jiutai Bangda has obtained all necessary approvals in relation to the Proposed Investment, including the approval of the Proposed Investment (i) by the Shareholders at a general meeting in compliance with the requirements of the Listing Rules; or (ii) by the Shareholders (being a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the voting rights at a general meeting of the Company to approve the Proposed Investment if such general meeting were to be convened) by way of written shareholders' approval in accordance with the requirements of the Listing Rules; and the Company has been in compliance with the Listing Rules and all applicable laws and regulations; and

(iii) the JV Partner guarantees that the establishment, construction and operation of the Target Company complies with relevant PRC laws and regulations (including but not limited to the relevant regulations on the supervision and management of state-owned assets and ensures that the Target Company obtains all necessary qualifications and certificates which shall continue to be valid, etc.).

The Investment Cooperation Agreement shall be terminated if any of the conditions precedent to the Proposed Acquisition is/are not fulfilled on or before 31 December 2023.

As at the Latest Practicable Date, condition precedent (ii) above has been fulfilled.

(k) Completion of the Proposed Acquisition

Completion of the Proposed Acquisition shall take place upon the fulfilment of all of the conditions precedent set out in the Investment Cooperation Agreement.

Upon completion of the Proposed Acquisition, the Target Company shall be owned by Jiutai Bangda as to 49% and the JV Partner as to 51%. The Target Company is expected to be an associate company of the Company and its results and net assets will be accounted for using the equity method in the consolidated financial statements of the Company upon completion of the Proposed Acquisition.

(l) Termination

If the Investment Cooperation Agreement is terminated before completion of the Proposed Acquisition or if any of the conditions precedent to the Proposed Acquisition is/are not fulfilled on or before 31 December 2023, the JV Partner and/or the Target Company (where applicable) shall repay Jiutai Bangda any sums paid by Jiutai Bangda to them in connection with the Proposed Investment (including the Deposit) within five (5) business days from the date of termination.

III. INFORMATION ON THE TARGET COMPANY

The Target Company is a limited liability company established in the PRC on 1 April 2022. Its business scope includes power generation business, power transmission business, power supply (distribution) business, heat production and supply.

Since the Target Company has not yet started its operations, it has not recorded any revenue or profit since its establishment. The Target Company incurred a loss and total comprehensive expenses in the amount of approximately RMB294,000 and RMB3,768,000 for the period from its incorporation on 1 April 2022 to 31 December 2022 and the six months ended 30 June 2023, respectively. Set out below are the total assets, total liabilities, net assets and net current liabilities position of the Target Company as at 31 December 2022 and 30 June 2023:

	As at 31 December 2022 *RMB*	**As at 30 June 2023** *RMB*
Total assets	20,038,000	91,708,000
Total liabilities	10,332,000	85,770,000
Net assets	9,706,000	5,938,000
Net current liabilities	1,736,000	8,583,000

Please refer to Appendices II and III to this circular for the accountants' report and a management discussion and analysis on the historical financial performance of the Target Company for the period from its incorporation on 1 April 2022 to 31 December 2022 and the six months ended 30 June 2023, respectively.

The Target Interests was valued at RMB5,118,000 as at 30 June 2023 by the Valuer, by way of market approach.

As stated in the Valuation Report and based on the Company's discussions with the Valuer, the market approach was adopted to determine the appraised fair value of the 49% equity interest in the Target Company as at 30 June 2023. The Company had thorough discussions with the Valuer on its valuation approach methodologies and understands that there are three generally accepted approaches for appraising the Target Interests, namely the cost approach, income approach, and market approach. According to the Valuer's advice, both the cost approach and income approach were considered inappropriate for assessing the fair value of the Target Interests for the reasons set out below.

Firstly, as the Target Company is established for carrying out a long-term project, namely, the Power Generation Project, assessing its value solely based on the reproduction or replacement cost through the cost approach is insufficient. The cost approach does not adequately capture the overall value of the Power Generation Project.

Secondly, considering that the Target Company is in the greenfield stage without a solid background for future projections, the Company believes that there is insufficient data available to accurately project the long-term financials required under the income approach.

On the other hand, the market contains numerous industry comparables operating in the same business and location (i.e. the PRC). These comparables serve as reliable price indicators, and therefore the Company considers the market approach as appropriate for assessing the fair value of the Target Interests.

Please refer to the Valuation Report as set out in Appendix V to this circular for further details.

IV. FURTHER INFORMATION ON THE FEASIBILITY STUDY REPORT

(a) Scope of the Feasibility Study Report

The scope of the Feasibility Study Report includes:

(i) describing the current status of the Guizhou power system, analyzing and predicting the power market demand, and propose recommendations on project scale, unit selection, and operation mode; setting out the power plant connection scheme, including the voltage level and number of outgoing circuits, to further justify the necessity of the Power Generation Project;

(ii) evaluating the fuel resources and supply for the power plant; conducting in-depth investigations and analysis of the coal sources to demonstrate the reliability of fuel supply and determining the transportation methods;

(iii) conducting studies on the site's environmental conditions, transportation, water supply sources, ash and slag yards, engineering geology, hydrology, and meteorology; proposing conceptual engineering designs for overall plant layout, equipment installation, and technical solutions related to coal transportation, water supply, ash handling, electrical systems, and control; conducting technical and economic comparisons of the main technical solutions to fully demonstrate the feasibility of the Power Generation Project;

(iv) identifying the environmental impacts of the construction of the Power Generation Project and providing principles and measures for environmental protection and mitigation;

(v) developing plans for labor safety, industrial hygiene, energy conservation, and staffing for the construction of the Power Generation Project; and

(vi) estimating the amount of investment for the Power Generation Project and conducting an economic benefit analysis to provide a comprehensive economic evaluation conclusion.

(b) Basis of preparation and basis of opinion

The Feasibility Study Report is prepared based on the "Methods and Parameters for Economic Evaluation of Construction Projects" (3rd edition) (《建設項目經濟評價方法與參數》(第三版)) jointly issued by the former National Planning Commission and the Ministry of Construction, as well as the current financial and tax regulations of the PRC.

The financial evaluation calculations and original data contained in the Feasibility Study Report are based on the "Reference Cost Index for Limited Design of Thermal Power Projects (2020 level)" (《火電工程限額設計參考造價指標(2020年水準)》).

(c) Findings and results of the Feasibility Study Report

According to the Feasibility Study Report, the Power Generation Project aligns with national industrial policies and the requirements outlined in the "Action Plan for Coal-Fired Energy Conservation, Emission Reduction, Upgrading, and Transformation"* (《煤電節能減排升級與改造行動計劃》) as the Power Generation Project promotes the comprehensive utilization of low-calorific coal resources and supports the transformation and upgrade of the coal-fired power industry in Guizhou Province, thereby contributing to sustainable and green development.

Due to the rapid and steady growth in electricity demand in Guizhou Province, there is a need for efficient and clean coal-fired power generation to ensure a sustainable energy supply. The construction of the Power Generation Project will help satisfying the electricity demand within the province and facilitate the transmission of electricity to other regions. Additionally, it will enhance coal mining capacity in the region, stimulate economic development, and align with the national strategy of shifting energy development to western regions.

The economic evaluation of the Power Generation Project is based on an annual utilization of 4,000 hours per unit and an internal rate of return of 10%. The on-grid electricity price during the operation period of the power plant is RMB336.34/MW.h. The price is lower than the benchmark on-grid electricity price for newly constructed coal-fired power units in Guizhou Province, which is RMB351.5/MW.h. The corresponding financial indicators, such as the total investment return rate and net profit rate of capital, are favorable, indicating that the Power Generation Project has competitive bidding capability.

As a comprehensive utilization project integrating wind, solar, and energy storage with coal-fired power generation, the Power Generation Project is expected to bring significant economic, social, and environmental benefits. It aligns with the goal of building a resource-saving and environmentally friendly society in the Liupanshui and Panzhou areas, as well as accelerating the new industrialization process.

V. INFORMATION ON JIUTAI BANGDA AND THE JV PARTNER

Jiutai Bangda is an indirect wholly-owned subsidiary of the Company established in the PRC. It is a principal operating subsidiary of the Company which engages in the exploration and mining of coking coal and coal refinery in the PRC.

The JV Partner is a wholly-owned subsidiary of Power China. Power China is a company listed on the Shanghai Stock Exchange (SSE: 601669) and its controlling shareholder is China Power Construction Corporation Co., Ltd.* (中國電力建設集團有限公司), a state-owned enterprise administered by the State-owned Assets Supervision and Administration Commission. The JV Partner is principally engaged in the production and supply of heat and electricity.

VI. REASONS FOR AND BENEFITS OF THE PROPOSED INVESTMENT

The Board considers that the Proposed Investment as contemplated under the Investment Cooperation Agreement provides the Group with the opportunity to diversify its operation in the energy sector.

The proposed coal-fired power plant is located in Liupanshui City, near the Baogushan Coal Mine, Hongguo Coal Mine and Xiejiahegou Coal Mine that are operated by the Group. During the coal mining and washing processes, a large amount of waste rock, middling coal and sludge coal, collectively referred to as low-calorific-value coal, are generated.

The Board considers that the proposed investment in the Power Generation Project will provide a stable and reliable customer base and market for the Group's low-calorific-value coal, as the coal-fired power plant will purchase coal from the Group for electricity generation. This cooperation creates operational synergy, with the power plant benefiting from a steady coal supply and the Group gaining a dedicated customer, optimizing operations and efficiency for both parties. This will also enable the graded utilization of the Group's coal and extend the Group's coal industry value chain.

In addition, the effective utilization of low-calorific-value coal can reduce long-term storage by the Group, which is beneficial for environmental protection in terms of air and soil quality in the mining area.

Besides, as the JV Partner is a state-owned enterprise and experienced in the production and supply of heat and electricity, the Board considers that the cooperation with the JV Partner will allow the Group to gain access to its extensive experience, technical expertise, and resources in the energy sector. This cooperation will facilitate efficient project execution and minimize risks associated with power plant construction.

Based on the above, the Directors consider that the terms of the Proposed Investment are fair and reasonable, and the Proposed Investment is in the interests of the Company and the Shareholders as a whole.

VII. LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Investment (i.e. the aggregate of the Consideration and the Capital Commitment) is more than 25% while all applicable percentage ratios are less than 100%, the Proposed Investment constitutes a major transaction for the Company and is subject to the reporting, announcement and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, neither the JV Partner nor any of its associates hold any Shares. As no Shareholder would be required to abstain from voting at the Company's general meeting for the approval of the Proposed Investment, the terms and conditions of the Investment Cooperation Agreement and the transactions contemplated thereunder, written shareholders' approval will be accepted in lieu of the general meeting on the condition that the accountants' report of the Target Company contains no qualified opinion by the reporting accountants pursuant to Rules 14.44 and 14.86 of the Listing Rules. Otherwise, the Company will convene a general meeting for the Shareholders to consider and, if thought fit, to pass the resolutions to approve the Proposed Investment, the terms and conditions of the Investment Cooperation Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, the Company has obtained written Shareholder's approval from Spring Snow, holding approximately 54.0% of the issued share capital of the Company, to approve the Proposed Investment.

VIII. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully
By order of the Board
Perennial Energy Holdings Limited
Yu Bangping
Chairman and Executive Director

* *For identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2022 and the six months ended 30 June 2023 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.perennialenergy.hk). Please refer to the hyperlinks as stated below:

- Annual report of the Company for the year ended 31 December 2020 published on 23 April 2021 (pages 71 to 149):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042301722.pdf

- Annual report of the Company for the year ended 31 December 2021 published on 21 April 2022 (pages 100 to 208):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0421/2022042100663.pdf

- Annual report of the Company for the year ended 31 December 2022 published on 25 April 2023 (pages 102 to 208):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0425/2023042500429.pdf

- Interim report of the Company for the six months ended 30 June 2023 published on 7 September 2023 (pages 28 to 53):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0907/2023090700452.pdf

2. INDEBTEDNESS

As at the close of the business on 31 August 2023, being the latest practicable date for the purpose of this statement of indebtedness, the Enlarged Group had outstanding indebtedness of RMB1,316,540,000 consisting of:

(a) bank and other borrowings of RMB1,314,575,000 comprising of:

(i) unsecured and unguaranteed bank and other borrowings of RMB374,041,000;

(ii) secured and unguaranteed bank and other borrowings of RMB548,433,000 secured by the bills receivables of RMB549,659,000; and

(iii) secured and guaranteed bank borrowings of RMB392,101,000, secured by the pledge over certain assets of the Group, including certain intangible assets, and guaranteed by related parties of the Group;

(b) lease liabilities of RMB1,965,000, among which RMB1,727,000 was secured by rental deposits of RMB437,000 and unguaranteed, and RMB238,000 was unsecured and unguaranteed.

Save as disclosed above, and apart from intra-group liabilities, at the close of business on 31 August 2023, the Enlarged Group did not have any other outstanding debts securities, bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages or charges, guarantees or other material contingent liabilities.

The Directors are not aware of any material changes in the indebtedness or contingent liabilities of the Group since 31 August 2023.

3. WORKING CAPITAL

Taking into account the present internal resources and the available banking facilities of the Enlarged Group, and considering the effect of the Proposed Investment and in the absence of unforeseen circumstances, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up).

5. EFFECT OF THE PROPOSED ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE COMPANY

Upon completion of the Proposed Acquisition, the Target Company shall be owned by Jiutai Bangda as to 49% and the JV Partner as to 51%. The Target Company shall be accounted for as an associate company of the Company and its results and net assets will be accounted for using the equity method in the consolidated financial statements of the Company upon completion of the Proposed Acquisition.

The following sets out, for illustrative purpose only, the key financials of the Group and the pro forma financial information of the Enlarged Group upon Completion as if the Proposed Acquisition had been completed as at 30 June 2023 for pro forma consolidated statement of financial position. The pro forma financial information of the Enlarged Group has been prepared based on the judgements and assumptions of the Directors for illustrative purposes only. It may not reflect the true financial position of the Enlarged Group as at 30 June 2023 or any future date due to its hypothetical nature. Please refer to Appendix IV to this circular for the "Unaudited Pro Forma Financial Information of the Enlarged Group" and the basis of preparation thereon.

(a) Earnings

As set out in the Accountant's Report of the Target Company as set out in Appendix II to this circular, the Target Company did not record any revenue and net profit for the year ended 31 December 2022 and for the six months ended 30 June 2023. The Company considers that there will not be any material effect on the profit or loss of the Group immediately upon completion of the Proposed Acquisition. Any profit or loss of the Target Company after completion of the Proposed Acquisition shall be shared or borne by Jiutai Bangda and the JV Partner in proportion to their respective equity interests in the Target Company.

(b) Assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as shown in Appendix IV to this circular, assuming Completion had taken place on 30 June 2023, the consolidated total assets and total liabilities of the Enlarged Group shall be increased from approximately RMB4,349 million to approximately RMB4,856 million and from approximately RMB1,914 million to approximately RMB2,424 million, respectively.

6. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Group is principally engaged in the exploration and mining of coking coal and coal refinery in the PRC, while the Target Company will be engaged in the operation of a coal-fired power plant comprising two sets of 660MW ultra-supercritical circulating fluidized bed coal-fired generating units in Liupanshui City, Guizhou Province.

The recent market dynamics have impacted the coking coal sector, with price fluctuations caused by supply constraints and a slowdown in domestic demand. The weakness in the steel market, which is closely tied to coking coal demand, has also affected the regional market in the southwestern region.

However, Guizhou Province has announced a substantial number of major construction projects and key initiatives for 2023, ranking among the highest in the country in terms of project quantity. These projects, along with the focus on transportation development, are expected to provide significant momentum for coking coal demand in the region. Furthermore, infrastructure projects such as highway construction in the Hongguo area and the anticipated railway access to Hongguo Economic Development Zone are anticipated to bring additional benefits to enterprises in the region, including the Group.

After the completion of the proposed Power Generation Project, the Company intends to sell the low-calorific-value coal to the Target Company for electricity generation. This cooperative arrangement fosters operational synergy, as the power plant will benefit from a consistent coal supply while the Group gains a dedicated customer. By optimizing operations and efficiency for both parties, this collaboration enables the graded utilization of the Group's coal resources and extends its coal industry value chain.

While the Group remains focused on its core activities, it continues to actively seek diversification opportunities within and beyond its existing scope of business. As of the Latest Practicable Date, the Company was not committed to any specific development plan, but it remains dedicated to identifying and pursuing suitable opportunities that align with its strategic objectives.

The following is the text of a report set out on pages II-1 to II-25, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF POWERCHINA PANZHOU LOW CALORIFIC VALUE COAL POWER GENERATION CO., LTD. TO THE DIRECTORS OF PERENNIAL ENERGY HOLDINGS LIMITED

Introduction

We report on the historical financial information of PowerChina Panzhou Low Calorific Value Coal Power Generation Co., Ltd. (the "**Target Company**") as set out on pages II-3 to II-25, which comprises the statements of financial position of the Target Company as at 31 December 2022 and 30 June 2023 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for the period from incorporation date of 1 April 2022 to 31 December 2022, and the six months ended 30 June 2023 (the "**Relevant Periods**") and material accounting policy information and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-3 to II-25 forms an integral part of this report, which has been prepared for inclusion in the circular of Perennial Energy Holdings Limited (the "**Company**") dated 25 October 2023 (the "**Circular**") in connection with the proposed acquisition of 49% equity interests in the Target Company.

Directors' responsibility for the Historical Financial Information

The director of the Target Company is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the director of the Target Company determines is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Company is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2022 and 30 June 2023 and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

Dividends

We refer to Note 23 to the Historical Financial Information which states that no dividend was declared or paid by the Target Company in respect of the Relevant Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 October 2023

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA and were audited by us, in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	**Period from incorporation date of 1 April 2022 to 31 December 2022** *RMB'000*	**Six months ended 30 June 2023** *RMB'000*
Other income	5	2	4
Administrative expenses		(296)	(3,768)
Finance costs	6	–	(4)
Loss before taxation	7	(294)	(3,768)
Taxation charge	8	–	–
Loss and total comprehensive expense for the period		(294)	(3,768)

STATEMENTS OF FINANCIAL POSITION

	NOTES	At 31 December 2022 RMB'000	At 30 June 2023 RMB'000
Non-current asset			
Property and equipment	9	10,792	87,731
Other receivables	10	650	959
		11,442	88,690
Current assets			
Amount due from immediate holding company	11	7,500	–
Cash and cash equivalents	12	1,096	2,938
Other receivables	10	–	80
		8,596	3,018
Current liabilities			
Bank borrowing	13	–	10,000
Other payables and accruals	14	10,332	1,444
Lease liabilities		–	157
		10,332	11,601
Net current liabilities		(1,736)	(8,583)
Total assets less current liabilities		9,706	80,107
Non-current liabilities			
Lease liabilities		–	81
Loan from immediate holding company	15	–	74,088
		–	74,169
Net assets		9,706	5,938
Capital and reserves			
Paid-in capital	16	10,000	10,000
Accumulated losses		(294)	(4,062)
Total equity		9,706	5,938

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB'000* *(Note 16)*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 April 2022	–	–	–
Capital injection	10,000	–	10,000
Loss and total comprehensive expense for the period	–	(294)	(294)
At 31 December 2022	10,000	(294)	9,706
Loss and total comprehensive expense for the period	–	(3,768)	(3,768)
At 30 June 2023	10,000	(4,062)	5,938

STATEMENTS OF CASH FLOWS

	Period from incorporation date of 1 April 2022 to 31 December 2022 *RMB'000*	Six months ended 30 June 2023 *RMB'000*
OPERATING ACTIVITIES		
Loss before taxation	(294)	(3,768)
Adjustments for:		
Depreciation of property and equipment	–	115
Bank interest income	(2)	(4)
Finance costs	–	4
Operating cash flows before movements in working capital	(296)	(3,653)
Increase in other receivables	(650)	(389)
Increase in other payables and accruals	2	277
NET CASH USED IN OPERATING ACTIVITIES	(944)	(3,765)
INVESTING ACTIVITIES		
Interest received	2	4
Acquisition of property and equipment	(462)	(85,652)
Advance to immediate holding company	(7,500)	–
Repayment from immediate holding company	–	7,500
NET CASH USED IN INVESTING ACTIVITIES	(7,960)	(78,148)
FINANCING ACTIVITIES		
Capital injection from immediate holding company	10,000	–
Loan from immediate holding company	–	74,000
New bank borrowing raised	–	10,000
Repayment of lease liabilities	–	(161)
Interest paid	–	(84)
NET CASH FROM FINANCING ACTIVITIES	10,000	83,755
INCREASE IN CASH AND CASH EQUIVALENTS	1,096	1,842
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	–	1,096
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,096	2,938

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company is a private company established in the People's Republic of China (the "**PRC**") with limited liability on 1 April 2022. The immediate holding company of the Target Company is PowerChina Power Investment Corporation (中電建電力投資集團有限公司) established in the PRC with limited liability, which owned 100% equity interest in the Target Company. The address of the registered office and principal place of business of the Target Company is 28–2, Building A, City Mansion, Hanlin Street, Panzhou City, Liupanshui City, Guizhou Province in PRC.

The Target Company is principally engaged in the production and supply of electricity in Guizhou Province. The Historical Financial Information is presented in Renminbi ("**RMB**"), which is also the functional currency of the Target Company.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with HKFRSs issued by the HKICPA. For the purpose of preparation of the Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

As at 30 June 2023, the Target Company had net current liabilities of RMB8,583,000 and cash and cash equivalents of RMB2,938,000.

The director of the Target Company has performed an assessment of the Target Company's future liquidity and cash flows, and concluded that the Target Company will have sufficient working capital to finance its operations and to meet its financial obligations for at least the next twelve months from the date of approval of the Historical Financial Information after taking into account unutilised bank facilities of RMB290,000,000 currently available to the Target Company and financial support from the existing shareholder. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

The statutory financial statements of the Target Company for the period from incorporation date of 1 April 2022 to 31 December 2022 were prepared in accordance with relevant accounting principles and financial regulations applicable to the enterprises in the PRC and were audited by Baker Tilly China Certified Public Accountants, certified public accountants registered in the PRC.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSS

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Company has consistently applied the accounting policies which conform with HKFRSs, which are effective for the accounting period beginning on 1 January 2023 throughout the Relevant Periods.

Amendments to HKFRSs in issue but not yet effective

The Target Company has not early applied the following amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 21	Lack of Exchangeability[3]

[1] Effective for annual periods beginning on or after a date to be determined
[2] Effective for annual periods beginning on or after 1 January 2024
[3] Effective for annual periods beginning on or after 1 January 2025

The director of the Target Company anticipates that the application of all amendments to HKFRSs will have no material impact on the Historical Financial Information in the foreseeable future.

4. MATERIAL ACCOUNTING POLICY INFORMATION

The Historical Financial Information has been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of HKFRS 16, the Target Company assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Company as a lessee

Short-term leases

The Target Company applies the short-term lease recognition exemption to leases of motor vehicles and offices that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Target Company; and
- an estimate of costs to be incurred by the Target Company in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Company presents right-of-use assets in "property and equipment", the same line item within which the corresponding underlying assets would be presented if they were owned.

Lease liabilities

At the commencement date of a lease, the Target Company recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Target Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Target Company presents lease liabilities as a separate line item on the statements of financial position.

Employee benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRSs requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Property and equipment

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress as described below. Property and equipment are stated in the statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

The cost of construction in progress is determined according to the actual expenditure for the preparation work of construction and construction, including all necessary construction expenditure incurred during the period from preparation to construction, borrowing costs that should be capitalised before the construction is ready for its intended use and other relevant expenses. The amount is carried at cost, less any recognised impairment loss. Construction in progress is transferred to property and equipment or intangible assets when the asset is ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on property and equipment

At the end of each reporting period, the Target Company reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of property and equipment are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Target Company compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Cash and cash equivalents

Cash, which comprises of cash on hand and demand deposits, and cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remains outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised when the Target Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income and interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of each reporting period following the determination that the asset is no longer credit-impaired.

*Impairment of financial assets subject to impairment assessment under HKFRS 9 Financial Instruments ("**HKFRS 9**")*

The Target Company performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including amount due from immediate holding company, other receivables and bank balances), which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after each reporting date. Assessments are done based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at each reporting date as well as the forecast of future conditions.

The Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Target Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Company compares the risk of a default occurring on the financial instrument as at each reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Company has reasonable and supportable information that demonstrates otherwise.

The Target Company regularly monitors the effectiveness of the criteria used to identify whether there has been significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Target Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

Irrespective of the above, the Target Company considers that default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount.

Derecognition of financial assets

The Target Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Target Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities, including other payables, loan from immediate holding company and bank borrowing are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the Target Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid and payable is recognised in profit or loss.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before taxation as reported in the statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Target Company applies HKAS 12 *Income Taxes* requirements to the lease liabilities, and the related assets separately. The Target Company recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

5. OTHER INCOME

	Period from incorporation date of 1 April 2022 to 31 December 2022	**Six months ended 30 June 2023**
	RMB'000	*RMB'000*
Bank interest income	2	4

6. FINANCE COSTS

	Period from incorporation date of 1 April 2022 to 31 December 2022	**Six months ended 30 June 2023**
	RMB'000	*RMB'000*
Interest on lease liabilities	–	4
Interest on loan from immediate holding company	–	168
Less: Capitalised in property and equipment	–	(168)
	–	4

7. LOSS FOR THE PERIOD

	Period from incorporation date of 1 April 2022 to 31 December 2022	Six months ended 30 June 2023
	RMB'000	*RMB'000*
Loss for the period has been arrived at after charging:		
Auditor's remuneration	–	–
A director's remuneration: *(Note)*		
Salaries and other benefits	–	77
Retirement benefits schemes contributions	–	35
	–	112
Other staff costs:		
Salaries and other benefits	–	717
Bonus	–	282
Retirement benefits schemes contributions	–	437
Total staff costs	–	1,548
Depreciation of property and equipment	–	115
Short-term lease expenses	26	249

Note: The amount of the director's remuneration was borne by the immediate holding company during the period from incorporation date of 1 April 2022 to 31 December 2022, which is not material.

The emoluments of the director stated above were for his services in connection with the management of the affairs of the Target Company. There is no arrangement under which the director waived or agreed to waive any remuneration during the Relevant Periods.

8. TAXATION

No provision for Enterprise Income Tax (the "**EIT**") during the Relevant Periods as the Target Company has no taxable profit.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the statutory EIT rate of the Target Company is 25%.

The taxation charge for the Relevant Periods can be reconciled to the loss before taxation per the statements of profit or loss and other comprehensive income as follows:

	Period from incorporation date of 1 April 2022 to 31 December 2022	**Six months ended 30 June 2023**
	RMB'000	*RMB'000*
Loss before taxation	(294)	(3,768)
Tax at the domestic income tax rate of 25%	(74)	(942)
Tax effect of tax losses not recognised	74	942
	–	–

At 31 December 2022 and 30 June 2023, no deferred tax asset in relation to unused tax losses of RMB294,000 and RMB3,768,000, respectively has been recognised in the Target Company's statements of financial position due to unpredictability of its future profit streams till to the expiry date of unused tax losses. In cases where the actual future profits generated by the Target Company are more than expected, a material deferred tax credit would be recognised in the statements of profit or loss and other comprehensive income in the period in which the tax losses are utilised.

Included in unused tax losses are tax losses which will expire in the following years:

	At 31 December 2022	**At 30 June 2023**
	RMB'000	*RMB'000*
Unused tax losses with expiry in:		
– 2027	294	294
– 2028	–	3,768
	294	4,062

9. PROPERTY AND EQUIPMENT

	Electronic equipment *RMB'000*	**Motor vehicles** *RMB'000*	**Construction in progress** *RMB'000*	**Leasehold improvement** *RMB'000*	**Leased properties** *RMB'000*	**Total** *RMB'000*
COST						
At 1 April 2022	–	–	–	–	–	–
Additions	–	–	10,792	–	–	10,792
At 31 December 2022	–	–	10,792	–	–	10,792
Additions	12	1,286	74,956	401	399	77,054
At 30 June 2023	12	1,286	85,748	401	399	87,846
ACCUMULATED DEPRECIATION						
At 1 April 2022 and 31 December 2022	–	–	–	–	–	–
Provided for the period	–	33	–	29	53	115
At 30 June 2023	–	33	–	29	53	115
CARRYING VALUES						
At 31 December 2022	–	–	–	–	–	10,792
At 30 June 2023	12	1,253	85,748	372	346	87,731

Depreciation is provided to write off the cost of items of property and equipment except for construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using straight-line method, at the following rates per annum:

Electronic equipment	10% to 20%
Motor vehicles	10% to 20%
Leased properties	Over the shorter of estimated useful life and the lease term
Leasehold improvement	Over the shorter of estimated useful life and the lease term

The Target Company as lessee

Right-of-use assets (included in the property and equipment)

	Period from incorporation date of 1 April 2022 to 31 December 2022 *RMB'000*	**Six months ended 30 June 2023** *RMB'000*
Total cash outflow for leases	26	414

The Target Company leases various dormitories and canteen for its operations. Lease contracts are entered into for fixed term of one to two and half years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Target Company applies the definition of a contract and determines the period for which the contract is enforceable.

The Target Company regularly entered into short-term leases for motor vehicles and offices respectively. As at 31 December 2022 and 30 June 2023, the portfolio of short-term leases committed is similar to the portfolio of short-term leases to which the short-term lease expenses are disclosed above.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowings purposes.

10. OTHER RECEIVABLES

	At 31 December 2022	**At 30 June 2023**
	RMB'000	*RMB'000*
Value-added tax recoverable	650	959
Others	–	80
	650	1,039
Analysed as:		
Non-current	650	959
Current	–	80
	650	1,039

Details of impairment assessment are set out in Note 21.

11. AMOUNT DUE FROM IMMEDIATE HOLDING COMPANY

The balance as at 31 December 2022 is non-trade nature, unsecured, interest-free and repayable on demand. The amount has been settled during the six months ended 30 June 2023.

Details of impairment assessment are set out in Note 21.

12. CASH AND CASH EQUIVALENTS

Bank balances earn interest at floating rates based on daily bank deposit rates range from 0.2% to 1.35% per annum for both period from incorporation date of 1 April 2022 to 31 December 2022 and six months ended 30 June 2023. The bank balances are deposited with banks with no recent history of default.

Details of impairment assessment are set out in Note 21.

13. BANK BORROWING

As at 30 June 2023, the bank borrowing carries fixed interest rate of 2.55% per annum, is unsecured and repayable on 28 June 2024.

14. OTHER PAYABLES AND ACCRUALS

	At 31 December 2022 *RMB'000*	At 30 June 2023 *RMB'000*
Amount due to immediate holding company *(Note)*	9,046	–
Amount due to fellow subsidiaries *(Note)*	798	798
Payable for acquisition of property and equipment	486	367
Accrued staff costs	–	268
Others	2	11
	10,332	1,444

Note: The amounts due to immediate holding company and fellow subsidiaries are unsecured, interest-free and repayable on demand. The amounts represent charges for consultation fee, design and evaluation fee of construction in progress.

15. LOAN FROM IMMEDIATE HOLDING COMPANY

The loan from immediate holding company as at 30 June 2023 is unsecured, with interest of 4.30% per annum and repayable in July 2024.

16. REGISTERED AND PAID-IN CAPITAL

Registered capital of the Target Company as at 1 April 2022, 31 December 2022 and 30 June 2023 are RMB10,000,000, RMB10,000,000 and RMB10,000,000 respectively. Paid-in capital of the Target Company as at 1 April 2022, 31 December 2022 and 30 June 2023 are nil, RMB10,000,000 and RMB10,000,000 respectively.

During the period from incorporation date of 1 April 2022 to 31 December 2022, PowerChina Power Investment Corporation injected RMB10,000,000 as paid-in capital into the Target Company.

17. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Company's statements of cash flows as cash flows from (used in) financing activities.

	Bank borrowing *RMB'000*	Loan from immediate holding company *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 April 2022 and 31 December 2022	–	–	–	–
New leases entered	–	–	399	399
Financing cash flows	10,000	73,920	(165)	83,755
Interest expenses	–	168	4	172
At 30 June 2023	10,000	74,088	238	84,326

18. RETIREMENT BENEFIT SCHEMES

The employees of the Target Company in the PRC are members of a state-managed retirement benefit scheme operated by the local government. The Target Company is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Target Company with respect to the retirement benefit scheme is to make the specified contributions.

The contributions to the retirement benefit scheme of the Target Company during the period from incorporation date of 1 April 2022 to 31 December 2022 and six months ended 30 June 2023 are disclosed in Note 7.

19. RELATED PARTY DISCLOSURES

(a) Transactions

Saved as disclosed elsewhere in the Historical Financial Information, the Target Company entered into the following transactions with its immediate holding company and fellow subsidiaries during the Relevant Periods:

	Period from incorporation date of 1 April 2022 to 31 December 2022	Six months ended 30 June 2023
	RMB'000	*RMB'000*
Immediate holding company		
Consultation fee charged to the Target Company	8,534	–
Fellow subsidiaries		
Design and evaluation fee charged to the Target Company	753	–
Security clearance service fee charged to the Target Company	–	330

The above transactions were transacted at prices agreed between the parties.

(b) Compensation of key management personnel

The key management personnel of the Target Company includes 1 executive director of the Target Company. Details of whose emoluments are set out in Note 7. Other members of key management personnel include 3 employees for the six months ended 30 June 2023. The remuneration of these 3 members during the period is as follows:

	Period from incorporation date of 1 April 2022 to 31 December 2022	Six months ended 30 June 2023
	RMB'000	*RMB'000*
Short-term employee benefits	–	206
Post-employment benefits	–	92
	–	298

The remuneration of the director and key executives is determined having regard to the performance of the individuals.

20. CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure that the Target Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Target Company's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Target Company consists of debt, which includes bank borrowing and loan from immediate holding company as disclosed in Notes 13 and 15, and lease liabilities, net of cash and cash equivalents and equity attributable to owners of the Target Company, comprising paid-in capital and accumulated losses.

The director of the Target Company reviews the capital structure regularly. As part of this review, the director considers the cost of capital and the risk associated with the capital, and will take appropriate actions to balance its overall capital structure.

21. FINANCIAL INSTRUMENTS

	At 31 December 2022 *RMB'000*	At 30 June 2023 *RMB'000*
Financial assets at amortised cost	8,596	3,018
Financial liabilities at amortised cost	10,332	85,264

Financial instruments of the Target Company include other receivables, amount due from immediate holding company, other payables, bank borrowing, loan from immediate holding company and cash and cash equivalents. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Target Company is exposed to fair value interest rate risk in relation to its lease liabilities and fixed-rate bank borrowing (Note 13). The Target Company's cash flow interest rate risk relates primarily to variable-rate bank balances. The director of the Target Company considered that interest rate risk of bank balances is insignificant. The Target Company currently does not have policy on cash flow hedges of interest rate risk. The management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Credit risk

The Target Company's credit risk is primarily attributable to amount due from immediate holding company, other receivables and bank balances as at 31 December 2022 and 30 June 2023. The amounts of financial assets at amortised cost stated in Notes 10, 11 and 12 represented the Target Company's maximum exposure to credit risk in relation to financial assets which will cause a financial loss to the Target Company due to failure to discharge an obligation by the counterparties.

21. FINANCIAL INSTRUMENTS

Amount due from immediate holding company and other receivables

The director of the Target Company reviews the impairment assessment of amount due from immediate holding company and other receivables at 31 December 2022 and 30 June 2023 to ensure that adequate impairment losses under ECL model are made. The director of the Target Company considers the credit risks are limited with reference to historical default record and forward-looking information. No loss allowance is recognised during both period from incorporation date of 1 April 2022 to 31 December 2022 and six months ended 30 June 2023 as the amount is considered as insignificant.

Bank balances

The credit risks on bank balances are limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Therefore, the credit rating is considered to be low credit risk and the impairment loss under ECL model is measured on 12m ECL basis. As at 31 December 2022 and 30 June 2023, the Target Company assessed the ECL for bank balances were insignificant and thus no impairment loss under ECL model was recognised.

Other than above concentration of credit risk and credit risk on liquid funds which are deposited with several banks with high credit ratings, the Target Company has no significant concentration of credit risk.

Liquidity risk

In managing the liquidity risk, the Target Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Target Company's operations and mitigate the effects of unexpected fluctuations in cash flows with reference to bank borrowing, loan from immediate holding company and currently available bank facilities.

In preparing the Historical Financial Information of the Target Company, the director of the Target Company has given careful consideration to the future liquidity of the Target Company in light of the fact that the Target Company had net current liabilities of RMB8,583,000 as at 30 June 2023.

The director of the Target Company has performed an assessment of the Target Company's future liquidity and cash flows, taking into account unutilised bank facilities of RMB290,000,000 currently available to the Target Company and financial support from the existing shareholder and concluded that the Target Company will have sufficient working capital to finance its operations and to meet its financial obligations for at least the next twelve months from the date of approval of the Historical Financial Information.

The following table details the Target Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Company can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates and amount due to immediate holding company and amount due to fellow subsidiaries are on demand.

	Weighted average interest rate	On demand or within 30 days	91–365 days	1–2 years	Total undiscounted cash flows	Carrying amount
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2022						
Other payables	N/A	10,332	–	–	10,332	10,332
		10,332	–	–	10,332	10,332
30 June 2023						
Other payables	N/A	1,176	–	–	1,176	1,176
Loan from immediate holding company	4.30%	–	–	77,182	77,182	74,088
Bank borrowing	2.55%	–	10,255	–	10,255	10,000
Lease liabilities	4.09%	–	165	83	248	238
		1,176	10,420	77,265	88,861	85,502

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The director of the Target Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information of the Target Company approximate their fair values.

22. CAPITAL COMMITMENTS

At the end of each reporting period, the Target Company had the following capital commitments contracted for but not provided in the Historical Financial Information in respect of:

	At 31 December 2022	At 30 June 2023
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the Historical Financial Information in respect of:		
Acquisition of property and equipment	–	1,538
Design and evaluation fee to be capitalised in property and equipment	2,165	15,485
	2,165	17,023

23. DIVIDENDS

No dividend was declared or paid by the Target Company in respect of the Relevant Periods nor has any dividend been proposed since the end of 30 June 2023.

24. LOSS PER SHARE

No loss per share information is presented for the purpose of this report as its inclusion is not considered meaningful.

25. SUBSEQUENT EVENTS

Subsequent to 30 June 2023, the Target Company had completed tender process and entered construction agreements with independent third parties for construction of power plants. It constitutes significant capital commitment with aggregate contract amount of RMB1,575,680,000.

Subsequent to 30 June 2023, Guizhou Jiutai Bangda Energy Development Co., Ltd., a wholly owned subsidiary of Perennial Energy Holdings Limited, successfully won the bid for 49% equity interest of Target Company at bidding price of RMB4,948,461. Transfer of interest is subject to condition precedent. As at date of this report, PowerChina Power Investment Corporation remains as sole shareholder of the Target Company.

26. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to 30 June 2023.

The financial statements of the Target Company for the period from its incorporation on 1 April 2022 to 31 December 2022 and the six months ended 30 June 2023 are set out in Appendix II to this circular. Set out below is the management discussion and analysis on the Target Company for the said period.

BUSINESS REVIEW AND PROSPECTS

The Target Company is a limited liability company established in the PRC on 1 April 2022. Its business scope includes power generation business, power transmission business, power supply (distribution) business, heat production and supply. The Target Company intends to develop and operate the Pannan Low Calorific Value Resources Comprehensive Utilization Power Generation Project* (盤南低熱值煤資源綜合利用發電項目) (the "**Power Generation Project**"). The Power Generation Project involves the construction, development and operation of a coal-fired power plant comprising two (2) sets of 660MW ultra-supercritical circulating fluidized bed coal-fired generating units in Liupanshui City, Guizhou Province. Since the Target Company has not yet started its operations, it has not recorded any revenue or profit since its incorporation. As of the latest available information, the preliminary work for the construction project of the power plant has been commenced, and it is estimated to be completed and start operation by 2025. Upon completion of the construction, the power plant is expected to have a production capacity of 5.28 billion kilowatt-hours annually and the Target Company intends to sell the electricity to the stated grid corporation in the region.

FINANCIAL REVIEW

Other income

During the nine months ended 31 December 2022 and the six months ended 30 June 2023, the Target Company generated other income amounting to approximately RMB2,000 and RMB4,000, respectively, representing the bank interest income in the corresponding period.

General and administrative expenses

During the nine months ended 31 December 2022 and the six months ended 30 June 2023, the Target Company incurred general and administrative expenses amounting to approximately RMB296,000 and RMB3,768,000, respectively. These expenses primarily represented general office expenses, including but not limited to rent, utilities, office supplies, salaries, and other costs associated with the Target Company's administrative functions.

Finance costs

During the nine months ended 31 December 2022 and the six months ended 30 June 2023, the finance cost is nil and approximately RMB4,000, respectively, which relates to interest on lease liabilities in the corresponding period.

Loss and total comprehensive expenses for the period

Based on the above, the loss and total comprehensive expenses for the nine months ended 31 December 2022 and the six months ended 30 June 2023 were approximately RMB294,000 and RMB3,768,000, respectively.

Assets and liabilities

As at 31 December 2022 and 30 June 2023, the total assets of the Target Company were approximately RMB20,038,000 and RMB91,708,000, respectively. The major portion of total assets was classified as property and equipment under non-current assets, pertaining to the construction in progress for the Power Generation Project.

On the other hand, as at 31 December 2022 and 30 June 2023, the total liabilities of the Target Company was approximately RMB10,332,000 and RMB85,770,000, respectively. The total liabilities as at 31 December 2022 mainly represented amounts due to immediate holding company of approximately RMB9,046,000 which were unsecured, interest-free and repayable on demand. As at 30 June 2023, the total liabilities of the Target Company mainly comprised (a) loan from immediate holding company of approximately RMB74,000,000 which was unsecured, bearing an interest of 4.30% per annum and repayable in July 2024; and (b) bank borrowings of RMB10,000,000 which was unsecured, bearing an interest of 2.55% per annum and repayable on 28 June 2024.

Liquidity and gearing ratio

The Target Company primarily utilizes its cash reserves to cover general office expenses and costs associated with the construction of the power plant. The Target Company financed its liquidity requirement primarily through shareholder's loan and the facilities from a bank.

The bank balances of the Target Company were primarily denominated in RMB. The Target Company's cash and cash equivalents amounted to approximately RMB1,096,000 and RMB2,938,000 as at 31 December 2022 and 30 June 2023, respectively.

As at 31 December 2022 and 30 June 2023, the Target Company had bank borrowing of nil and RMB10,000,000, respectively.

As at 31 December 2022 and 30 June 2023, the gearing ratio of the Target Company was nil and approximately 168%, respectively. The gearing ratio is calculated based on the total bank and other borrowings divided by the total equity at the end of the period.

Capital commitment

As at 31 December 2022 and 30 June 2023, the capital expenditure in respect of the acquisition of property and equipment and design and evaluation fee to be capitalised in property and equipment contracted for were approximately RMB2,165,000 and RMB17,023,000, respectively.

Charge on assets

As at 31 December 2022 and 30 June 2023, the Target Company did not have any charges over its assets.

Contingent liabilities

As at 31 December 2022 and 30 June 2023, the Target Company did not have any material contingent liabilities.

Employees and remuneration policies

The Target Company employed nil and 17 employees as at 31 December 2022 and 30 June 2023, respectively, all of which were based in Guizhou Province, the PRC. All of the employees of the Target Company are required to undergo induction trainings before they commence work. In 2022 and the six months ended 30 June 2023, the Target Company's total employees remuneration was approximately nil and RMB1,548,000, respectively. The Target Company provides its employees in the PRC with various benefit schemes as required by the applicable laws and regulations in the PRC.

Foreign currency risk

As at 31 December 2022 and 30 June 2023, most of the Target Company's business transactions, assets and liabilities were denominated in RMB. The Target Company did not have any material foreign currency exposure during the period and did not hold any financial instruments for hedging purposes.

Significant investments, material acquisitions and disposals of subsidiaries and associates

As at 31 December 2022 and 30 June 2023, the Target Company did not have any significant investments, material acquisitions or disposals of subsidiaries or associates.

* *For identification purpose only*

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Perennial Energy Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Perennial Energy Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2023 and related notes as set out on pages IV-4 to IV-9 of the circular issued by the Company dated 25 October 2023 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page IV-4 to IV-9 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of Proposed Investment in the Power Generation Project, as defined in the Circular, through acquisition of 49% equity interests in and capital injection into the Target Company on the Group's financial position as at 30 June 2023 as if the acquisition of 49% equity interests in and capital injection into the Target Company had taken place at 30 June 2023. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2023, on which no auditor's report or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2023 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 25 October 2023

I. BASIS OF PREPARATION

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") which have been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Proposed Investment in the Power Generation Project, which includes the proposed acquisition of 49% equity interests in the Target Company and proposed injection of the Capital Commitment, as if the acquisition of 49% equity interests in and capital injection into the Target Company had taken place on 30 June 2023.

The Unaudited Pro Forma Financial Information is prepared based on information on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2023, which has been extracted from the published interim report of the Company for the six months ended 30 June 2023, and (ii) the audited statement of financial position of the Target Company as at 30 June 2023 which has been extracted from the accountants' report set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information has been prepared on the basis of the notes below based on a number of assumptions, estimates, uncertainties and currently available information. The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the Enlarged Group had the proposed acquisition of 49% equity interests in the Target Company and proposed injection of the Capital Commitment been completed on 30 June 2023, or at any future dates.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Company for the six months ended 30 June 2023, the accountants' report of the Targe Company as set out in Appendix II to this circular, and the other financial information included elsewhere in the Circular.

For the purpose of the Unaudited Pro Forma Financial Information, assumptions and estimates underlying the unaudited pro forma adjustments set forth in the Unaudited Pro Forma Financial Information are described in the accompanying notes.

II. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Unaudited Pro Forma Financial Information as at 30 June 2023 is presented in RMB and all values are rounded to the nearest thousand ('000) except when otherwise indicated.

	The Group as of 30 June 2023	Unaudited pro forma adjustments			Unaudited pro forma total for the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (a)	*Note (b)*	*Note (c)*	*Note (d)*	
	(unaudited)				(unaudited)
ASSETS					
Non-current assets					
Property, plant and equipment	2,043,195	–	–	–	2,043,195
Investment properties	51,500	–	–	–	51,500
Mining rights	810,220	–	–	–	810,220
Investment in debt instrument	36,880	–	–	–	36,880
Restricted bank deposits	17,268	–	–	–	17,268
Deferred tax asset	38,646	–	–	–	38,646
Rental deposits	440	–	–	–	440
Deposit for acquisition of mining rights	90,566	–	–	–	90,566
Investment in an associate	–	4,948	509,600	–	514,548
Total non-current assets	3,088,715	4,948	509,600	–	3,603,263
Current assets					
Inventories	51,632	–	–	–	51,632
Trade and bills receivables	962,744	–	–	–	962,744
Deposits, prepayments and other receivables	89,348	–	–	–	89,348
Tax recoverable	8,066	–	–	–	8,066
Bank balances and cash	148,239	(4,948)	–	(2,805)	140,486
Total current assets	1,260,029	(4,948)	–	(2,805)	1,252,276
Total assets	4,348,744	–	509,600	(2,805)	4,855,539

	The Group as of 30 June 2023	Unaudited pro forma adjustments			Unaudited pro forma total for the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (a)	*Note (b)*	*Note (c)*	*Note (d)*	
	(unaudited)				(unaudited)
LIABILITIES					
Non-current liabilities					
Lease liabilities	653	–	–	–	653
Provision for restoration costs	48,060	–	–	–	48,060
Deferred tax liabilities	26,634	–	–	–	26,634
Total non-current liabilities	75,347	–	–	–	75,347
Current liabilities					
Trade payables	134,973	–	–	–	134,973
Other payables and accrued charges	175,521	–	509,600	–	685,121
Amounts due to related parties	2,463	–	–	–	2,463
Contract liabilities	1,639	–	–	–	1,639
Lease liabilities	1,287	–	–	–	1,287
Contingent consideration payables	255,186	–	–	–	255,186
Bank and other borrowings	1,267,569	–	–	–	1,267,569
Total current liabilities	1,838,638	–	509,600	–	2,348,238
Total liabilities	1,913,985	–	509,600	–	2,423,585
Net assets	2,434,759	–	–	(2,805)	2,431,954

III. NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

a. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2023 as set out in the published interim report of the Company for the six months ended 30 June 2023.

b. The amounts represent the proposed acquisition of 49% equity interests in the Target Company pursuant to the Investment Cooperation Agreement dated 25 August 2023 and entered into by Jiutai Bangda and the JV Partner, as set out in the "Letter from the Board" section of this circular.

The Target Company will be accounted for as an associate using the equity method of accounting in accordance with Hong Kong Accounting Standard 28 *Investments in Associates and Joint Ventures* ("**HKAS 28**") in the consolidated financial statements of the Group as the Group will appoint two out of seven directors in the board of the Target Company and is able to exercise significant influence in the Target Company.

In accordance with HKAS 28, on acquisition of an associate, any excess of the cost of the investment over the Group's share of the net fair value of the Target Company's identifiable assets and liabilities is accounted for as goodwill relating to an associate, which is included in the carrying amount of the investment in the Target Company. Details are as illustrated below:

	Notes	*RMB'000* *(Note (i))*
Property and equipment		87,731
Other receivables		1,039
Cash and cash equivalents		2,938
Bank borrowing		(10,000)
Other payables and accruals		(1,444)
Lease liabilities		(238)
Loan from immediate holding company		(74,088)
Net fair value of the identified assets and liabilities of the Target Company	(ii)	5,938
The Group's 49% equity interests in the Target Company		2,910
Goodwill (included in interest in an associate)		2,038
Interest in an associate		4,948
Consideration transferred	(iii)	4,948

Notes:

(i) The amounts were extracted from the Accountants Report of the Target Company as at 30 June 2023 as set out in Appendix II to the circular.

(ii) For the purpose of the Unaudited Pro Forma Financial Information, based on the Directors' estimates, the fair values of the identified assets and liabilities of the Target Company as at 30 June 2023 are estimated to be approximate to their carrying amounts as at 30 June 2023.

(iii) On 28 August 2023, Jiutai Bangda submitted a bid for 49% equity interest in the Target Company at a bidding price of RMB4,948,000 under the Public Listing Process and the Group was identified as the winning bidder on 18 September 2023.

Since the fair value and the carrying amount of the identifiable assets and liabilities of the Target Company at the actual completion date may be different from their respective values used in the preparation of the Unaudited Pro Forma Financial Information, the amount of goodwill to be recorded in the interest in an associate in the consolidated financial statements of the Enlarged Group at the actual completion date may be different from the estimated amount presented above.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information, no impairment on the Target Company is identified by the Directors upon completion of the Proposed Investment as there is no indication of impairment under Hong Kong Accounting Standard 36 *Impairment of Assets* ("**HKAS 36**"). In preparation of the consolidated financial statements of the Group in subsequent reporting periods, the Group will undertake an impairment review in accordance with the requirements of HKAS 36 when there is any indication that the Target Company may be impaired.

c. The adjustment represents contribution of registered capital in proportion to the Group's 49% equity interests in the Target Company in cash by four instalments pursuant to the Investment Cooperation Agreement, as presented below:

	Amount to be contributed by the Group *RMB'000*
Within five business days after completion of the proposed acquisition of 49% equity interest in the Target Company	93,100
By 31 March 2024	147,000
By 30 June 2024	147,000
By 31 March 2025	122,500
	509,600

The Group intends to finance the consideration and Capital Commitment partly by internal resources of the Group and partly through borrowings from independent third party. The borrowings from an independent third party is obtained subsequent to 30 June 2023. For the purpose of the Unaudited Pro Forma Financial Information, the source of finance is determined based on the Directors' assumption of using internal resources to finance the capital contribution. Actual allocation of source of finance may be different from the assumption presented above.

d. The adjustment represents the estimated transaction costs of RMB2,805,000 related to the Proposed Investment.

e. Apart from the notes above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2023 for the purpose of preparation of the Unaudited Pro Forma Financial Information.

The following is the text of a valuation report prepared for the purpose of incorporation in this circular received from Valtech Valuation Advisory Limited, an independent valuer, in connection with its valuation as of 30 June 2023 of 49% equity interest in the Target Company.

Valtech =∑ w * factors
Valuation Advisory

25 October 2023

Board of Directors
Unit 1003, 10th Floor
Tower 2, Lippo Centre
89 Queensway, Hong Kong

Dear Sir/Madam,

Valuation of PowerChina Panzhou Low Calorific Value Coal Power Generation Company Limited

In accordance with the instructions from Perennial Energy Holdings Limited (the "**Company**"), we have been engaged by the Company to assist to determine the following subject of valuation as at 30 June 2023 (the "**Valuation Date**").

- Valuation of 49% equity interest in PowerChina Panzhou Low Calorific Value Coal Power Generation Company Limited (the "**Target Company**" or "**Subject of Valuation**") as at the Valuation Date for transaction reference purpose.

Our analyses are substantially based on the information provided to us by the existing management of the Company (the "**Management**"). It is our understanding that our analyses, and the subsequent appraised estimation of Fair Value (as defined in the section of Standard and Basis of Value), will be used by the Management solely for their purpose of transaction reference only. Our analyses were conducted for the above stated purpose. As such, this report should not be used by the Company for any other purpose other than those that are expressly stated herein without our expressed prior written consent.

Our work was subject to section Statement of Limiting Conditions as described till the end of this report. The basis of value follows the definition of Fair Value as stipulated in the HKFRS 13 – Fair Value Measurement, premised on the Subject of Valuation being a "Highest and Best Use" basis.

The approaches and methodologies used in our work did not comprise an examination to ascertain whether the Company's presented financial information were constructed in accordance with generally accepted accounting principles. The objective of the aforesaid examination is of course to determine whether existing current financial statements or other financial information, historical or prospective, which are provided to us by the Management, are being expressed as a fair presentation of the Company's financial condition. As such, we express no opinion and accept no responsibility on the accuracy and/or completeness of the historical and projected financial information of the Company, and of the marketing materials or other data provided to us by the Management. Our conclusions on Fair Value do not constitute nor shall they be construed to be an investment advice or an offer to invest. Prior to making any decisions on any investments, a prospective investor should independently consult with their own investment, accounting, legal and tax advisers to critically evaluate the risks, consequences, and suitability of such investment.

SCOPE AND PURPOSE OF ENGAGEMENT

We were engaged by the Management to assist to determine the Fair Value of the Subject of Valuation as at the Valuation Date. It is our understanding that the Company is undergoing potential transaction with the current owner of the Target Company and the transaction negotiation will be performed in a combined basis as well as entering into single sales and purchase agreement. Our analysis will be used by the management of the Company solely for their transaction reference only.

STANDARD AND BASIS OF VALUE

This valuation was prepared on the basis of Fair Value. In accordance with HKFRS 13 – Fair Value Measurement, Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When appropriate, we might also make cross reference to the International Valuation Standards ("**IVS**") published by the International Valuation Standards Council. The IVS details the general guideline on the basis and valuation approaches used in valuation.

PREMISE OF VALUE

Premise of value relates to the concept of valuing a subject, i.e., a business, in a manner which would generate the greatest return to the owner, taking account what is physically tangible, financially feasible, and legally permissible. Premise of value includes the following scenarios:

Highest and Best Use:	is the use that would produce the highest and best use for an asset, and it must be financially feasible, legally allowed and result in the highest value;
Current Use/Existing Use:	is the current way an asset, liability, or group of assets and/or liabilities is used, maybe yet not necessarily the highest and best use;

Orderly Liquidation:	describes the value of a group of assets that could be realized in a liquidation sale, given a reasonable period of time to find a purchaser/(s), with the seller being compelled to sell on an as-is, where-is basis; and
Forced Sale:	is in circumstances where a seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible and buyers may not be able to undertake adequate due diligence.

After having reviewed all background and financial information and taken into consideration all relevant facts, valuation of the Subject of Valuation should be prepared on a "Highest and Best Use" basis.

LEVEL OF VALUE

Current valuation theories suggest that there are at least three basics "levels" of value applicable to a business or business interest. The three most common levels of value are as follows:

Controlling Interest:	Value of the controlling interest, always evaluate an enterprise as a whole;
Non-controlling Interest:	Value of the non-controlling interest of a business;
As if Freely Tradable Minority Interest:	Value of a minority interest, lacking control, but enjoys the benefit of market liquidity; and
Non-marketable Interest	Value of a business that or business interest lacking market liquidity.

After having reviewed all background and financial information and take into consideration all relevant and objective facts, we reasonably believe Subject of Valuation should be valued and reported in this valuation as a Non-controlling Interest and Non-marketable Interest.

SOURCES OF INFORMATION

Our analysis and conclusion of opinion on value were based on continued discussions with, and having obtained pertinent key documents and records provided by the Management, and conducted certain procedures including but not limited to:

- Obtained audited financial statements of the Subject of Valuation for the period ended 31 December 2022 and 30 June 2023;

- Obtained list of fixed assets, construction in progress and right-of-use ("**ROU**") assets breakdown as at 30 June 2023;

- Obtained the feasibility study report ("**Feasibility Study Report**") of the Power Generation Project issued by China Energy Construction Group Guizhou Electric Power Design and Research Institute Company Limited ("**Power Design Research Institute**") dated in April 2022;

- Obtained the investment cooperation agreement ("**Investment Cooperation Agreement**") engaged between Jiutai Bangda and the JV Partner dated in August 2023;

- Obtained the land transfer agreement engaged between the Bureau of Natural Resources of Liupanshui and the Target Company;

- Obtained letter of intent of fixed asset loan regarding the Power Generation Project issued by China Construction Bank dated on 16 June 2022;

- Obtained low-calorific-value coal supply and sales price estimate of the Company; and

- Obtained the Company's announcement on Stock Exchange of Hong Kong dated on 25 August 2023.

We have also relied upon publicly available information from sources in capital markets, including industry reports, news and various databases of publicly traded companies.

ECONOMIC OVERVIEW

To substantiate the economic background of the country where the Subjects of Valuation is located, we have reviewed the economic condition of China where the Subjects of Valuation will derive its future income from.

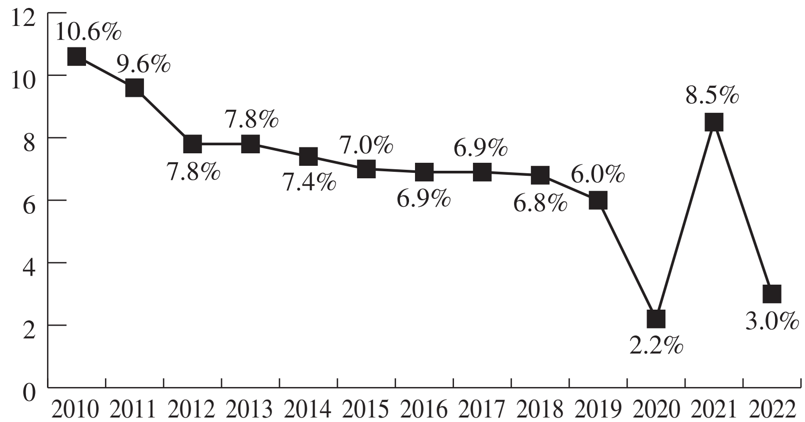
GDP Growth in China

According to the draft proposal of the 14th Five-Year Plan (2021–2025) and Vision 2035 (2021–2035), China aims on building a moderately prosperous society in all respects. Therefore, the economy growth is expected to be kept from high-speed growth to high-quality growth and rebalanced with supply-side structural reform.

The coronavirus outbreak is having a severe impact on economic activity in 2020, and the GDP growth was recorded by 2.3%. With the pandemic fading and containment efforts gradually unwound, the economy accelerated sharply to grow by 8.0% in 2021. However, the appearance of more contagious variants in 2022 has led to more frequent and longer lockdowns under the zero-COVID policy, with the restrictions and related uncertainty weighing on domestic demand. After a series of announcements, the zero-COVID strategy was relaxed in November and

December 2022. According to World Economic Outlook database published by International Monetary Fund ("**IMF**") published in April 2023, the GDP recorded a 3.0% growth in 2023.

Real GDP Annual Growth Rate in China, 2010–2022



Source: World Economic Outlook Database (April 2023), International Monetary Fund& National Bureau of Statistics of China

Real GDP Annual Growth Rate and Inflation Forecast of China

	2023F	2024F	2025F	2026F	2027F
Real GDP Annual Growth Rate (%)	5.2	4.5	4.1	4.0	3.6
Inflation (%)	2.0	2.2	2.2	2.2	2.2

Source: World Economic Outlook Database (April 2023), International Monetary Fund

Growth in China will remain strong but is projected to decline gradually as the Chinese government's intention to "de-lever" the economy through controlling credit growth in order to maintain a healthy growth of the economy in long run. Nevertheless, supply-side structural reforms as well as regulatory tightening to mitigate environmental and financial remain definite drags on growth. External uncertainty risks including trade frictions with the U.S. persist and real estate activity continues to show significant variations nationwide, although property market prudential measures have so far tamed volatility.

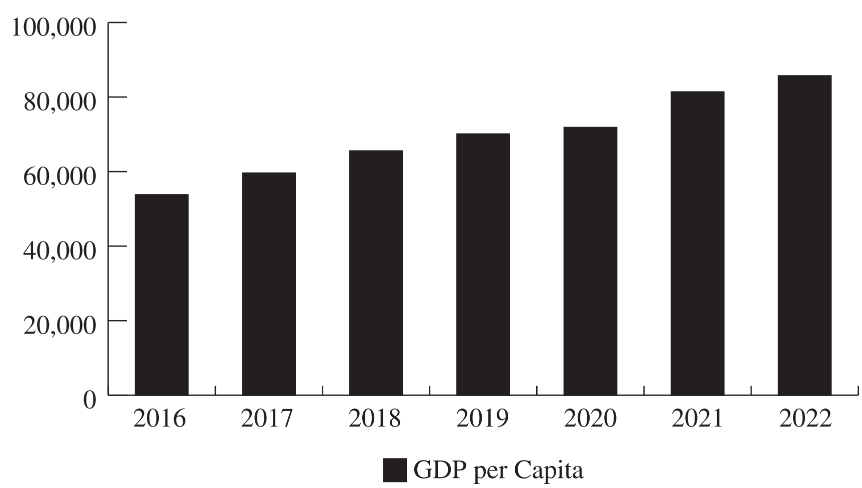
In the near term, the deep contraction in the real estate sector, and weaker global growth are the main drags, while a secular decline in productivity growth and demographic headwinds, amid geoeconomic fragmentation pressures, are weighing on medium-term growth prospects.

GDP per Capita in China

The 13th Five-Year Plan adopted in 2016 mandated that China becomes a "moderately prosperous society" and doubles its real GDP between 2010 and 2020. The disposable income level, one of the good measures, has grown significantly over the past few years. According to the latest data from National Bureau of Statistics of China, annual disposable income per capita of urban households in China has increased from RMB36,396 in 2017 to RMB49,283 in 2022, representing a CAGR of approximately 6.8%; annual disposable income per capita of rural households has increased from RMB13,432 in 2017 to RMB20,133 in 2022, representing a CAGR approximate to 7.0%. In comparison to the inflationary figures, the annual inflation rate is between 0.9% and 2.2% during the period from 2017 to 2022.Hence, the living standard of Chinese people saw an overall improvement.

The following diagram shows the GDP per capita of China from 2016 to 2022.

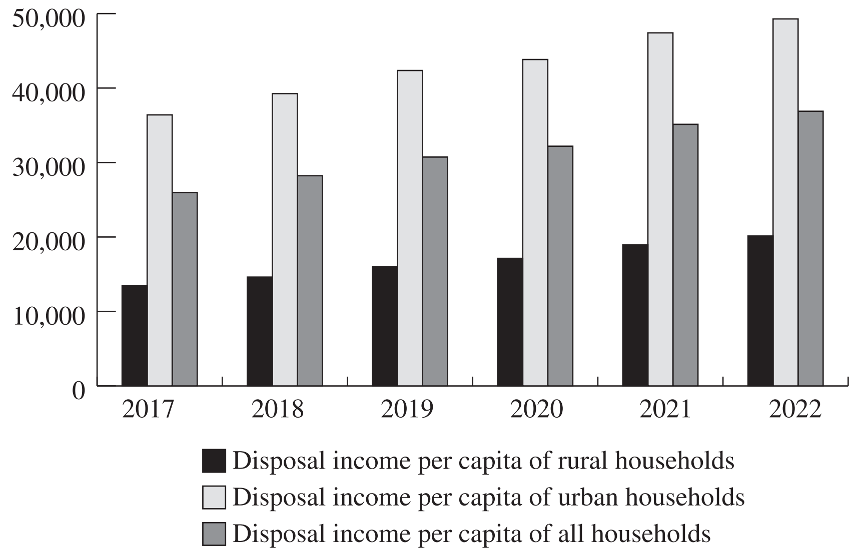
GDP per capita (RMB) of China from 2016 to 2022



Source: National Bureau of Statistics of China

The following diagram shows the annual resident disposal income per capita from 2017 to 2022.

Disposal income per capita of China from 2017 to 2022



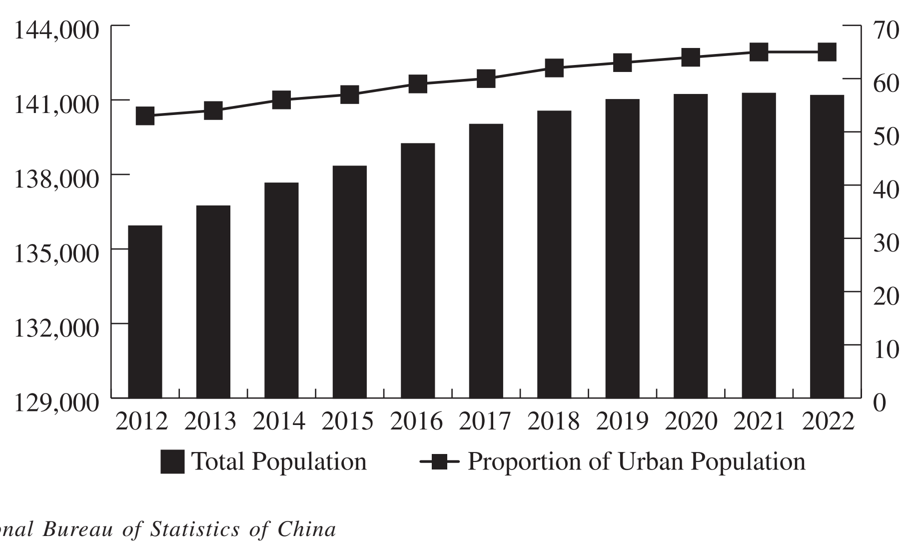
Source: National Bureau of Statistics of China

Population Growth

The population growth of China tends to become slow these years. According to the National Bureau of Statistics of China, the population has grown from 1.36 billion in 2012 to 1.41 billion in 2022, representing a CAGR of approximately 0.4%. The proportion of urban population in China increased from 53% in 2012 to 65% in 2022.

The following diagram shows the population growth and corresponding urban population growth in China from 2012 to 2022.

Population and Portion of Urban Population in China



Source: National Bureau of Statistics of China

For the next ten years, the population growth is supposed to be steady. The future growth of the domestic demand should depend on the population growth, as well as the increasing urbanization and expansion of the middle class. Meanwhile, the unemployment rate was recorded at around 4.0% for the past few years, and it is expected the rate will gradually moderate to 3.6% during 2023 to 2027.

China's one-child policy starting from 1979 has slowed down the birth rate, but the side effect of the policy starts to take effect in the current decade. The number of elderly people is rising and this age group is forecasted to grow in the next few decades while the number of children aged from 0 to 14 years old fluctuated around 223 million. The Government has realized this trend and introduced two-child policy since October 2015. As a result, the number of the 0-to-14-years-olds enjoys a slight rise to 263 million in 2021, with the CAGR of 1.7% from 2012 to 2021.

Age Distribution of China from 2012 to 2021 and CAGR

Population Aged	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR
0–14 (million)	224	224	227	228	233	235	238	237	253	263	1.7%
15–64 (million)	1,007	1,010	1,010	1,010	1,009	1,005	1,001	996	969	882	-1.3%
65 and over (million)	128	133	139	145	150	160	167	178	191	267	8.1%

Source: National Bureau of Statistics of China

Inflation

The inflation rate in China has slightly decreased since 2011 and picked up in 2017. According to IMF, the inflation rate was recorded at 2.1% in 2022 in China and is estimated to grow modestly to 2.2% in 2023. Regarding 2023, Inflation is expected to remain below the authorities' target of 3.0%. Near term price pressures are expected to remain muted. With the modest growth pickup, the output gap will close gradually and still be large through much of 2023. Demand supply imbalances are expected to remain small despite re-opening, as the full lifting of COVID restrictions is expected to be gradual and result in a slow shift in demand toward contact-intensive sectors. However, the outlook of China's inflation is far left behind compared with the inflation of world's average and of emerging and developing economies.

Annual Inflation Forecasts of China versus World Economies

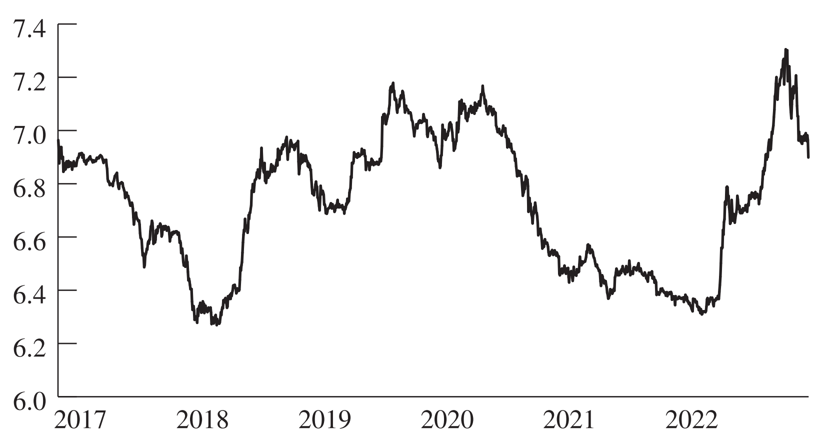
Inflation rate, average consumer prices (Annual percent change)

	2023F	**2024F**	**2025F**	**2026F**	**2027F**
World	7.0	4.9	3.9	3.6	3.5
Emerging market and developing economies	8.6	6.5	5.1	4.7	4.6
China	2.0	2.2	2.2	2.2	2.2

Source: World Economic Outlook Database (April 2023), International Monetary Fund

The RMB yuan has depreciated by around 10% against the U.S. dollar since March 2022 in the wake of the strongest U.S. dollar in decades. The authorities have taken steps to stabilize exchange rate expectations, including by lowering the FX reserve requirement ratios in May and September to provide more onshore FX liquidity, tightening the reserve requirement on FX forwards in September, and raising the cross-border financing macro-prudential adjustment parameter for financial institutions and enterprises in October.

US Dollar Versus RMB Yuan, 2017–2022



Source: Bloomberg

Government Policy

In November 2020, the Communist Party of China Central Committee ("**CPCCC**") published the CPCCC's Proposals for the Formulation of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035 ("**the Proposals**"), which serves as a significant guideline for China's social and economic development in the five to fifteen years to come.

The Proposals is comprised of (1) a review of the major achievements on the way to building a moderately prosperous society in all respects; (2) long-range objectives through the year 2035 raised based on an analysis of the future development trend; and (3) an illustration of the guiding philosophy, principles and major objectives for the 14th Five-Year Plan period, as well as the detailed development scenarios and priorities from 12 aspects. The Proposals reflects noteworthy new development philosophy, mindset and policies. In specific, greater importance would be attached to the following economy-related highlights:

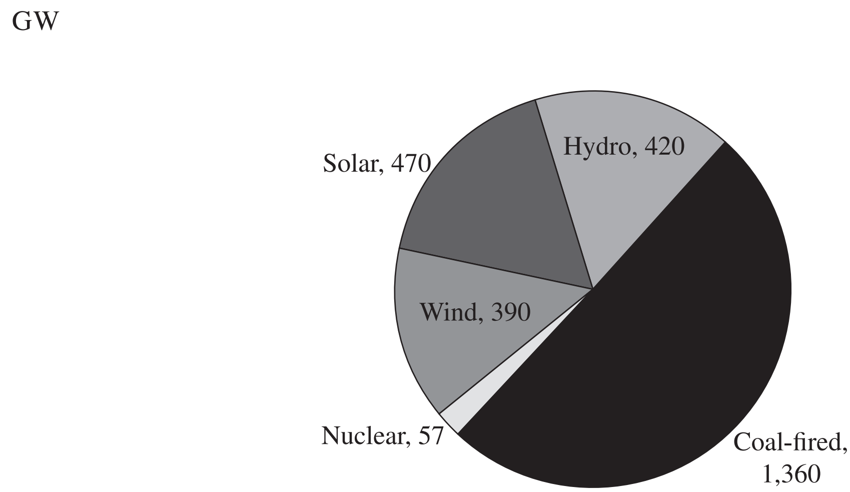
- Shifting from quantity-focused development to all-round development
- Upholding the central role of innovation in the modernisation drive
- Attaching more weight to the build-up of a modern industrial system
- Fostering a "dual circulation" development model relying on the strong domestic market
- Deepening reform continuously in pursuit of a high-level socialist market economy
- Breaking new ground in high-level opening-up and mutually beneficial cooperation

INDUSTRY OVERVIEW

China's coal-fired power market has played a pivotal role in the country's economic growth and development for decades. Coal has been a cornerstone of the nation's energy sector, powering its industrialization, urbanization, and electrification efforts. For years, coal has been the primary source of energy, making China the world's largest consumer and producer of coal with a substantial installed coal-fired power generation capacity.

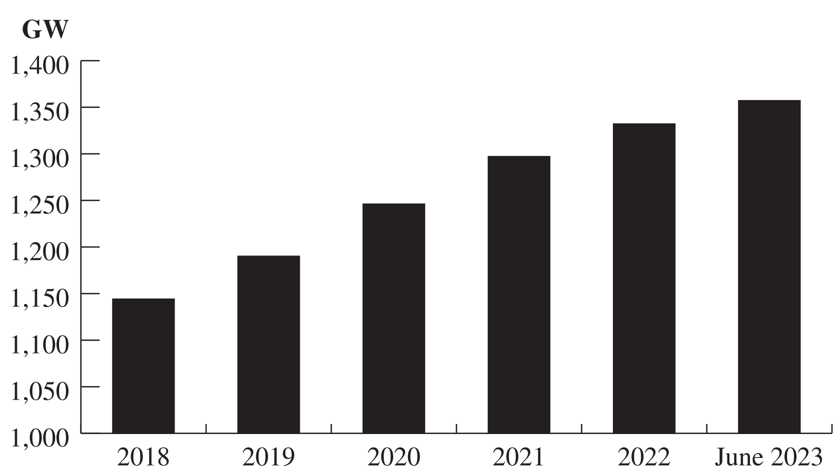
According to the latest data released by China Electricity Council, the total installed coal power capacity was estimated to be around 1,360 GW as at June 2023, spread across thousands of power plants. While China has made significant strides in diversifying its energy mix, coal-fired power remains a vital component of the energy landscape. Approximately 50% of China's total electricity generation came from coal in 2023.

Figure 1: Installed Capacity by Energy Type of China Electricity Power Industry as of June 2023



Source: China Electricity Council

Figure 2: Installed Capacity of Coal-fired Power in China, 2018 – June 2023

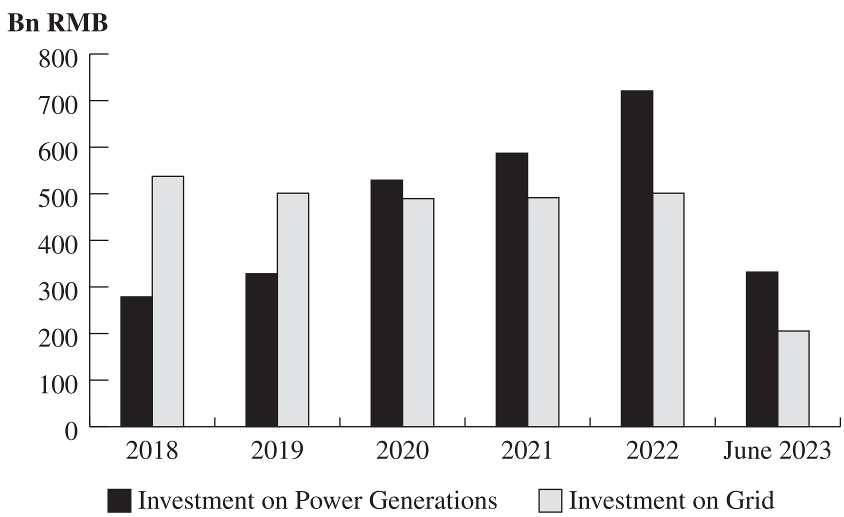


Source: China Electricity Council

While China has been actively diversifying its energy mix by promoting renewables and nuclear power, it has also made substantial investments in upgrading and expanding its coal-fired power generation capacity. These investments have been driven by the need to meet the country's ever-increasing energy demands, particularly in its rapidly growing urban areas and industrial sectors. The government has initiated numerous projects aimed at increasing efficiency and reducing the environmental impact of coal-fired power plants. Investments have been channeled into the development of advanced coal technologies, such as ultra-supercritical and supercritical boilers, which enhance power plant efficiency and reduce emissions.

To support the growth and integration of various forms of power generation, China has also made significant investments in grid infrastructure. The expansion and modernization of the electricity transmission and distribution networks have been critical in ensuring a reliable and efficient supply of electricity across the country. The development of "smart grids" has been a focus of investment, incorporating advanced technologies for real-time monitoring, control, and optimization of the electricity grid. This allows for better integration of renewable energy sources and improved grid stability, reducing the curtailment of excess electricity generation.

Figure 3: Investment on Electricity Industry in China, 2018 – June 2023



Source: China Electricity Council

Government Initiatives

In recent years, recognizing the environmental and health impacts of coal, the Chinese government embarked on a series of initiatives to reduce its reliance on this fossil fuel:

- Capacity Reduction: The government aimed to reduce excess coal capacity by phasing out outdated, inefficient coal mines and power plants. This included the closure of small and inefficient mines and the consolidation of larger ones to improve safety and efficiency.

- Cleaner Technologies: Encouraging the use of cleaner coal technologies, such as ultra-supercritical and supercritical boilers, became a priority. These technologies improve the efficiency of coal combustion and reduce emissions.

- Renewable Energy: China has been actively promoting the development of renewable energy sources, such as wind, solar, hydroelectric, and nuclear power, to diversify its energy mix. Substantial investments were made in renewable energy infrastructure to reduce coal's role in power generation.

Future Outlook

The future of China's coal-fired power market is poised for significant changes:

- Carbon Neutrality Commitment: China's pledge to achieve carbon neutrality by 2060 indicates a long-term shift away from coal. This commitment will require substantial changes in energy production, consumption patterns, and technological innovation.

- Transition to Natural Gas: Natural gas is expected to play a larger role in the energy mix as a transitional fuel. It is seen as a cleaner alternative to coal and can help reduce emissions in the short term.

- Technological Advancements: Continued investments in clean coal technologies and carbon capture and storage ("**CCS**") are likely to make coal-fired power generation more environmentally sustainable.

China's coal-fired power market stands at a crossroads, with environmental concerns, government policies, and global climate commitments shaping its future. While coal will continue to play a role in China's energy mix for some time, the country's transition to cleaner energy sources is inevitable. The path forward will have profound implications for the global energy landscape and efforts to combat climate change.

COMPANY OVERVIEW

Perennial Energy Holdings Limited

Perennial Energy Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (2798.HK). The Company is a China-based investment holding company mainly engaged in mining business, including exploration and mining of coking coal and coal washing. Its main product is 1/3 coking coal (also known as Clean Coal). The Company also offers medium coal, peat and raw coal. Its subsidiaries include Coal & Mines, Guizhou Fubanglian and so on.

Guizhou Jiutai Bangda Energy Development Company Limited

Guizhou Jiutai Bangda Energy Development Company Limited ("**Jiutai Bangda**") is a company established in the PRC with limited liability. It is a wholly-owned principal operating subsidiary of the Company which engages in the exploration and mining of coking coal and coal refinery in the PRC.

PowerChina Power Investment Corporation

PowerChina Power Investment Corporation ("**JV Partner**") a company established in the PRC with limited liability. The JV Partner is a wholly-owned subsidiary of Power Construction Corporation of China Limited which is a company listed on the Shanghai Stock Exchange (SSE: 601669) and its controlling shareholder is China Power Construction Corporation Co., Ltd.* (中國電力建設集團有限公司), a state-owned enterprise administered by the State-owned Assets Supervision and Administration Commission. The JV Partner is principally engaged in the production and supply of heat and electricity.

PowerChina Panzhou Low Calorific Value Coal Power Generation Company Limited

PowerChina Panzhou Low Calorific Value Coal Power Generation Company Limited is a company established in the PRC with limited liability and is a wholly-owned subsidiary of the JV Partner as at the Valuation Date. Its business scope includes power generation business, power transmission business, power supply (distribution) business, heat production and supply. The Target Company intends to develop and operate the Power Generation Project.

Pannan Low Calorific Value Resources Comprehensive Utilization Power Generation Project

Pannan Low Calorific Value Resources Comprehensive Utilization Power Generation Project (the "**Power Generation Project**") involves the construction, development and operation of a coal-fired power plant comprising two sets of 660MW ultra-supercritical circulating fluidized bed coal-fired generating units in Liupanshui City, Guizhou Province.

TRANSACTION OVERVIEW

On 25 August 2023, Jiutai Bangda entered into the Investment Cooperation Agreement with the JV Partner, pursuant to which Jiutai Bangda has conditionally agreed to cooperate with the JV Partner to invest in the Power Generation Project. Pursuant to the terms of the Investment Cooperation Agreement, the total investment sum of Jiutai Bangda would be RMB514,548,461, comprising (a) the proposed acquisition of 49% equity interests in the Target Company by Jiutai Bangda from the JV Partner, at the consideration of not more than RMB4,948,461; and (b) subject to the completion of the proposed acquisition, the potential capital injection by Jiutai Bangda of RMB509,600,000 as additional registered capital into the Target Company by way of four instalments.

VALUATION METHODOLOGY OVERVIEW

The valuation of any asset can be broadly classified into one of the three approaches, namely the cost approach, the market approach and the income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the analysis of that asset.

Cost Approach

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain a business, business ownership interest, security, or intangible asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

Market Approach

The market approach provides an indication of value by comparing a business, business ownership interest, security, or intangible asset with identical or comparable (that is similar) subjects for which price information is available.

Value is established based on the principle of comparison. This simply means that if one thing is similar to another and could be used for the other, then they must be similar. Furthermore, the price of two alike and similar items should be approximates to one another.

Income Approach

This is a general way of determining the economic value of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the Valuation Date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

Selected Valuation Approach

Methodology Analysis	Reason for Applying or not Applying
Cost Approach is Rejected	(a) the Subject of Valuation is a utility project, which cannot be easily replaced or reproduced from its unique nature.

Market Approach is Accepted	(a)	the Subject of Valuation or substantially similar businesses are actively publicly traded, and/or
	(b)	there are frequent and/or recent observable transactions in substantially similar assets.
Income Approach is Rejected	(a)	the Subject of Valuation is at a green field stage and further capital commitment by the Company is expected in the future; Performing discounted cash flow modelling for valuation will involve significant assumptions on capital expenditure, financing plan and operating assumptions that are highly sensitive to valuation. Hence, income approach is not applied for forming the valuation opinion of the Subject of Valuation. Nevertheless, we have reviewed the feasibility analysis from financial point of view by reviewing the capital budgeting and financial planning of the Company.

GENERAL ASSUMPTIONS

A number of general assumptions were established to sufficiently support our conclusion of valuation. The general assumptions adopted in this valuation are:

- There are no changes, the aggregate of which when viewed together, may be construed to be a material adverse change in the existing political, legal, commercial and banking regulations, fiscal policies, foreign trade and economic conditions in countries/regions where the Target Company currently operates in and in new markets that the Target Company may potentially expand into as proposed by Management;

- There are no deviations, the aggregate of which when viewed together, may be construed to be a material adverse change in industry demand and/or market conditions;

- There are no changes, the aggregate of which when viewed together, may be construed to be a material adverse change in the fluctuation of interest rates or currency exchange rates in any country which would be deemed to have a negative impact or the ability to hinder the existing and/or potentially future operations of the Target Company;

- There are no changes, the aggregate of which when viewed together, may be construed to be a material adverse change in the current laws of taxation in those countries in which the Target Company operates in or the Target Company may potentially operate in;

- All relevant legal approvals, business certificates, trade and import permits, bank credit approval have been procured, in place and in good standing prior to commencement of operations by the Target Company under the normal course of business;

- The Target Company will be able to retain existing and competent management, key personnel, and technical staff to support all facets of the ongoing business and future operations; and

- Trademarks, patents, technology, copyrights and other valuable technical and management knowhow will not be infringed in countries/regions where the Target Company is or will be carrying on business.

APPLICATION OF MARKET APPROACH

Methodology

Under the Market Approach, value of the Subject of Valuation is determined based on its comparable peers' trading multiples. This principle is addressed by the valuation method to be discussed below.

Guideline Publicly-traded Comparable ("GPTC") Method

Under the GPTC Method, the value is derived from last trading multiples of a selected set of comparable companies ("**Guideline Publicly-traded Comparable**"). Trading multiples, which are measures of relative value, are computed by dividing the market capitalisations (or sometimes enterprise value) of the Guideline Publicly-traded Comparable by some identified value-driving economic variable(s) observed or calculated from their latest published fundamental data, being typically their financial data (such as revenue, earnings before interests and taxes, net profit, book equity) or other industry-specific value drivers as at the Valuation Date. A typical challenge in applying the GPTC Method is to identify a sufficient pool of relevant and sufficient Guideline Publicly-traded Comparable that are comparable to the Target and the Subject Companies in terms of their business models, underlying business risks and prospects.

Since the Target Company is at a greenfield stage of development, profitability related indicators including sales, Earnings before interest, tax, depreciation and amortization ("**EBITDA**") and net profit are all unavailable, thus related pricing multiples including Enterprise value to sales ("**EV/S**"), Enterprise value to EBITDA ("**EV/EBITDA**") and price to earnings ("**P/E**") are all considered not appropriate in this valuation.

Enterprise value to invested capital ("**EV/IC**") and price to book value ("**P/B**") both remain as possible pricing multiples. In general, both EV/IC and P/B are applicable to capital-intensive business, such as energy companies. However, by performing balance sheet analysis, we can see that the Target Company has a book debt to book equity ratio of over 14x, which is much higher than the average of 3x from the pool of Guideline Publicly-traded Comparable. When the Target Company has a very high debt level which is not comparable to the pool of Guideline Publicly-traded Comparable, P/B is not a good choice.

EV/IC is by its nature a suitable valuation multiple to capital-intensive companies, in which its historical and future revenue generation stems primarily from the productivity of its fixed asset base. In this case, the majority of assets is property and equipment for the power generation project. Therefore, EV/IC multiple is adopted.

Selection of the Guideline Publicly-traded Comparable

We exercised due care in the selection of the Guideline Publicly-traded Comparable by using multiple screening criteria in deciding whether or not the business model of a particular Guideline Publicly-traded Comparable is relevant. If no meaningful comparison can be made, or insufficient count of the companies survives the comparability screen, we would reconsider the suitability of the GPTC method.

The selection criteria of the Guideline Publicly-traded Comparable mainly include two factors namely business nature and location. The Target Company is a coal-fire power generating plant in China, thus Guideline publicly-traded comparable are selected if they are principally engaged in coal-fire power generation and operated in China.

#	Company Name	Stock Code	Company Description	Principal Business Nature	Location
1	Huaneng Power International Inc	600011 CH	Huaneng Power International, Inc. provides electricity generation services. The Company offers electricity transmission, electricity distribution, power transformation, and other related services. Huaneng Power International provides services in China.	Coal-fire power generation	China

#	Company Name	Stock Code	Company Description	Principal Business Nature	Location
2	Zhejiang Zheneng Electric Power Co Ltd	600023 CH	Zhejiang Zheneng Electric Power Co., Ltd. supplies electric power through operating thermal power generation. The Company also involves in the research and development of electric power, power and energy-saving technology development, technical consulting, sales of energy-saving products, electrical engineering and asset management.	Coal-fire power generation	China
3	Huadian Power International Corp Ltd	600027 CH	Huadian Power International Corporation Limited operates electricity businesses. The Company provides power plant construction, hydropower, wind power, and solar power generation services. Huadian Power Internatioanal also conducts electricity transmission and distribution businesses.	Coal-fire power generation	China
4	Datang International Power Generation Co Ltd	601991 CH	Datang International Power Generation Co., Ltd offers power generation services. The Company provides power project development, electricity transmission, and power distribution services. Datang International Power Generation also conducts coal, coal chemistry, transport, and recycling businesses.	Coal-fire power generation	China

#	Company Name	Stock Code	Company Description	Principal Business Nature	Location
5	Wintime Energy Group Co Ltd	600157 CH	Wintime Energy Group Co., Ltd. offers power supply services. The Company provides comprehensive energy development, generation, distribution, and other services. Wintime Energy Group also operates coal operation, petroleum trading, investment, logistics, and other businesses.	Coal-fire power generation	China
6	Shenergy Co Ltd	600642 CH	Shenergy Company Limited develops, constructs, and invests in electric power and other energy related projects. The Company distributes electric power, heat, and gas.	Coal-fire power generation	China
7	Shenzhen Energy Group Co Ltd	000027 CH	Shenzhen Energy Group Co., Ltd. offers power supply services. The Company provides power transmission, power system management, power network maintenance, and other services. Shenzhen Energy Group also operates logistics, waste management, gas supply, steam supply, and other businesses.	Coal-fire power generation	China
8	GD Power Development Co Ltd	600795 CH	GD Power Development Co., Ltd offers power generation and power project development services. The Company provides wind power, thermal power, and hydropower services. GD Power Development also conducts coal operation and heating businesses.	Coal-fire power generation	China

#	Company Name	Stock Code	Company Description	Principal Business Nature	Location
9	Jiangsu Guoxin Corp Ltd	002608 CH	Jiangsu Guoxin Corp. Ltd. operates electricity power business. The Company provides electricity transmission, power system management, electricity power network maintenance, and other services. Jiangsu Guoxin also operates coal business and financial services.	Coal-fire power generation	China
10	Shanghai Electric Power Co Ltd	600021 CH	Shanghai Electric Power Company Limited operates power generation businesses. The Company generates electricity, thermal power, and other power products. Shanghai Electric Power also operates engineering contracting, new energy development, and other businesses.	Coal-fire power generation	China
11	Inner Mongolia MengDian HuaNeng Thermal Power Corp Ltd	600863 CH	Inner Mongolia Mengdian Huaneng Thermal Power Corporation Limited operates electricity network businesses. The Company provides thermal power generation, electricity transmission, and hot water production services. Inner Mongolia Mengdian Huaneng Thermal Power also conducts wind power generation and coal production businesses.	Coal-fire power generation	China

#	Company Name	Stock Code	Company Description	Principal Business Nature	Location
12	Guangdong Electric Power Development Co Ltd	000539 CH	Guangdong Electric Power Development Co., Ltd offers power supply services. The Company provides power transmission, power system management, power network maintenance, and other services. Guangdong Electric Power Development also operates power project investment, power industry technical consultation, and other businesses.	Coal-fire power generation	China
13	Beijing Jingneng Power Co Ltd	600578 CH	Beijing Jingneng Power Co., Ltd. operates power generation businesses. The Company generates electrical power, thermal power, and other power products. Beijing Jingneng Power also provides power generation equipment repairing services.	Coal-fire power generation	China
14	An Hui Wenergy Co Ltd	000543 CH	An Hui Wenergy Co., Ltd. generates electric power. Through its subsidiaries, the company also manufactures networking terminal products.	Coal-fire power generation	China
15	CHN Energy Changyuan Electric Power Co Ltd	000966 CH	CHN Energy Changyuan Electric Power Co., Ltd. generates electric power and thermal power through its hydroelectric and thermal power plants. The Company engages in thermal power, hydropower, and new energy power generation businesses. CHN Energy Changyuan Electric Power conducts businesses in China.	Coal-fire power generation	China

#	Company Name	Stock Code	Company Description	Principal Business Nature	Location
16	Guangdong Baolihua New Energy Stock Co Ltd	000690 CH	Guangdong Baolihua New Energy Stock Co., Ltd. operates power generation businesses. The Company generates and distributes wind power and other power products. Guangdong Baolihua New Energy Stock also operates engineering construction, financial leasing, real estate development, and other businesses.	Coal-fire power generation	China
17	Jointo Energy Investment Co Ltd Hebei	000600 CH	Jointo Energy Investment Co Ltd Hebei operates heat-engine plant and hotel business. Through its subsidiaries, the Company also operates department stores and develops real estate.	Coal-fire power generation	China
18	Top Energy Co Ltd Shanxi	600780 CH	Top Energy Company Ltd. Shanxi operates thermal power plants and generates electric power. The electric power generated by the Company is supplied to Shanxi Province.	Coal-fire power generation	China
19	Jinneng Holding Shanxi Electric Power Co Ltd	000767 CH	Jinneng Holding Shanxi Electric Power Co., Ltd. provides electricity. The Company offers electric power generation, transmission, distribution, and other services. Jinneng Holding Shanxi Electric Power provides services in China.	Coal-fire power generation	China

#	Company Name	Stock Code	Company Description	Principal Business Nature	Location
20	Xinjiang Tianfu Energy Co Ltd	600509 CH	Xinjiang Tianfu Energy Co., Ltd. offers power generation services. The Company offers thermal power generation, heating, and electricity transmission services. Xinjiang Tianfu Energy also conducts engineering construction and commercial service businesses.	Coal-fire power generation	China
21	Jiangxi Ganneng Co Ltd	000899 CH	Jiangxi Ganneng Co., Ltd. generates electric power. The Company also invests in energy saving projects and provides boiler installation and maintenance services.	Coal-fire power generation	China
22	Datang Huayin Electric Power Co Ltd	600744 CH	Datang Huayin Electric Power Co., Ltd. generates and sells electric power. The Company also undertakes electric power projects, invests in real estate development, and provides renovation services.	Coal-fire power generation	China
23	Henan Yuneng Holdings Co Ltd	001896 CH	Henan Yuneng Holdings Co., Ltd. generates and sells electric power. The Company also undertakes environmental protection and energy conservation projects.	Coal-fire power generation	China
24	Shenzhen Nanshan Power Co Ltd	000037 CH	Shenzhen Nanshan Power Co., Ltd. generates electricity for Shenzhen area. The Company operates gas turbine and steam turbine electricity generating equipment. Shenzhen Nanshan also constructs power plants and provides technology consulting services.	Coal-fire power generation	China

#	Company Name	Stock Code	Company Description	Principal Business Nature	Location
25	Guangzhou Hengyun Enterprises Holdings Ltd	000531 CH	Guangzhou Hengyun Enterprises Holding Ltd. provides electric power services. The Company operates power generation, heating, new energy, and finance businesses. Guangzhou Hengyun Enterprises Holding also through its subsidiaries, provides energy sales and protection services.	Coal-fire power generation	China
26	Shenyang Jinshan Energy Co Ltd	600396 CH	Shenyang Jinshan Energy Co., Ltd. generates and sells electric power. The company also produces heat power and steam power. Shenyang Jinshan sells energy to residential and industrial customers in the Northeast of China.	Coal-fire power generation	China

Computation of the Valuation Multiple

Once we have identified the set of Guideline Publicly-traded Comparable and made necessary adjustments to their financial information, if any, the next step is to compute their EV/IC multiples on a reliable and consistent approach across all Guideline Publicly-traded Comparable.

#	Company Name	Stock Code	Market Capitalization *(RMB million)*	Enterprise Value *(RMB million)*	Invested Capital *(RMB million)*	EV/IC
1	Huaneng Power International Inc	600011 CH	123,158	511,058	358,039	1.43
2	Zhejiang Zheneng Electric Power Co Ltd	600023 CH	67,982	113,667	112,995	1.01
3	Huadian Power International Corp Ltd	600027 CH	63,435	221,409	160,398	1.38
4	Datang International Power Generation Co Ltd	601991 CH	49,402	284,762	214,071	1.33
5	Wintime Energy Group Co Ltd	600157 CH	31,549	55,637.63	66,539	0.84
6	Shenergy Co Ltd	600642 CH	34,317	72,224.30	74,100	0.97
7	Shenzhen Energy Group Co Ltd	000027 CH	31,351	113,303.10	98,776	1.15
8	GD Power Development Co Ltd	600795 CH	68,310	356,661.72	290,052	1.23
9	Jiangsu Guoxin Corp Ltd	002608 CH	28,600	54,912.06	63,812	0.86
10	Shanghai Electric Power Co Ltd	600021 CH	30,336	147,492.63	112,330	1.31
11	Inner Mongolia MengDian HuaNeng Thermal Power Corp Ltd	600863 CH	27,087	46,603.78	29,282	1.59
12	Guangdong Electric Power Development Co Ltd	000539 CH	34,280	123,500.18	113,960	1.08
13	Beijing Jingneng Power Co Ltd	600578 CH	26,173	76,846.49	64,013	1.20
14	An Hui Wenergy Co Ltd	000543 CH	14,961	48,984	43,419	1.13
15	CHN Energy Changyuan Electric Power Co Ltd	000966 CH	15,341	36,781	31,426	1.17
16	Guangdong Baolihua New Energy Stock Co Ltd	000690 CH	15,275	17,732	19,150	0.93
17	Jointo Energy Investment Co Ltd Hebei	000600 CH	13,849	36,599	31,253	1.17
18	Top Energy Co Ltd Shanxi	600780 CH	11,866	10,293	7,725	1.33
19	Jinneng Holding Shanxi Electric Power Co Ltd	000767 CH	9,754	43,671	42,281	1.03
20	Xinjiang Tianfu Energy Co Ltd	600509 CH	8,993	18,722	16,453	1.14
21	Jiangxi Ganneng Co Ltd	000899 CH	8,703	14,812	11,409	1.30
22	Datang Huayin Electric Power Co Ltd	600744 CH	7,292	23,140	18,257	1.27
23	Henan Yuneng Holdings Co Ltd	001896 CH	7,400	26,902	24,394	1.10
24	Shenzhen Nanshan Power Co Ltd	000037 CH	4,737	4,706	1,893	2.49
25	Guangzhou Hengyun Enterprises Holdings Ltd	000531 CH	5,944	15,297	15,672	0.98
26	Shenyang Jinshan Energy Co Ltd	600396 CH	3,608	18,406	14,063	1.31

The statistics of pool of derived EV/IC multiple from Guideline Publicly-traded comparable is listed as follows.

Valuation Multiple Statistics	**As at 30 June 2023**
Number of valid comparable	26
Mean	1.22
High	2.49
Upper quartile	1.31
Median	1.17
Lower quartile	1.05
Low	0.84
Standard deviation	0.32
Coefficient of variance	0.26

Determination of Valuation Result

Based on information provided, the invested capital including the loan from immediate holding company, bank borrowing and the book equity are included as the invested capital of the Target Company. As the Power Generation Project is a long term operation project while it is in greenfield stage currently, we considered its uncertainty in economy of scale and adopted the lower quartile multiple of the selected comparable companies in this valuation. The valuation of Fair Value of the Subject of Valuation as at the Valuation Date is summarized as follow:

RMB	*Note*	**As at 30 June 2023**
Selected Multiple		EV/IC
Adopted multiple (rounded)		1.05
Invested Capital of the Subject of Valuation		90,026,000
Estimated unadjusted valuation		94,527,300
Less: Interest-bearing debts		(84,326,000)
Add: Excess cash and cash equivalents		2,938,000
Estimated adjusted valuations		13,139,300
Less: Discount for lack of marketability ("**DLOM**")	20.5%	(2,693,557)
Implied Fair Value of 100% equity interest in the Subject of Valuation		10,445,744
Implied Fair Value of 49% equity interest in the Subject of Valuation		5,118,414
Implied Fair Value of 49% equity interest in the Subject of Valuation (Rounded)		5,118,000

DISCOUNT FOR LACK OF MARKETABILITY

A DLOM reflects the concept that when comparing otherwise identical assets, a readily marketable asset would have a higher value than an asset with a long marketing period or restrictions on the ability to sell the asset. For example, publicly-traded securities can be bought and sold nearly instantaneously while shares in a private company may require a significant amount of time to identify potential buyers and complete a transaction. Many bases of value allow the consideration of restrictions on marketability that are inherent in the subject asset but prohibit consideration of marketability restrictions that are specific to a particular owner. DLOMs may be quantified using any reasonable method, but are typically calculated using option pricing models, studies that compare the value of publicly-traded shares and restricted shares in the same company, or studies that compare the value of shares in a company before and after an initial public offering.

In this case, we have made reference to the 2022 Stout Restricted Stock Companion Guide to arrive at DLOM of 20.5%.

REVIEW OF CAPITAL BUDGETING AND FINANCIAL PLANNING

We have also reviewed the capital budgeting and financial planning of the Power Generation Project, which requires various parameters including the capital commitment, cash flow projections, working capital requirements and capital expenditure requirements. The net cash flows of the Power Generation Project generated from electricity generation activities were estimated, followed by a discounting process to bring the future values back to their present values at an appropriate discount rate. The capital budgeting is based on financial forecasts provided by the Management's assumptions with reference to the complete Feasibility Study Report covering period of the operation of the Power Generation Project dated April 2022 and understanding of the local markets. As at the Valuation Date, the post-tax discount rate applied to the Power Generation Project is 7.79%, which is derived from the weighted average cost of capital by making reference to the comparable companies applied in the market approach and prevailing long term borrowing rate in China and the net present value ("**NPV**") of the Power Generation Project is about RMB29 million whereas the project internal rate of return ("**IRR**") is 7.81%; the cost of equity applied for capital investment is 15.78% and the NPV of capital investment is about RMB151 million whereas the equity IRR is 17.88%. The capital budgeting considers initial cashflow of about RMB1,050 million which is in line with the capital commitment schedule of the Company set out in the company announcement, and both the project NPV and equity NPV are positive for the Power Generation Project. The capital budgeting and financial planning review support the feasibility of the Power Generation Project and the economic value of the invested capital and the invested fixed assets at early stage of the investment.

RISK FACTORS

Supply of Low-Calorific-Value Coal

The Power Generation Project requires stable supply of low-calorific-value coal as a major fuel component for electricity generation. According to the Feasibility Study Report, the annual consumption of low-calorific-value coal is expected to be 3.52 million tonne which is a significant amount. Although the Company is dedicated to meet up with the supply, there is no guarantee that the supply of low-calorific-value coal will remain stable throughout the operation period and it may also be affected due to factors as coal mine production, commodity price and mining costs. Any substantial changes to the supply of low-calorific-value coal will have an impact on the continuation of the Target Company.

Operating Cost

The Feasibility Study Report takes into account different operating cost components including use of limestone powder for desulfurization and urea for denitrification and assumes the Target Company would acquire such cost components at prescribed market level throughout the operation of the Power Generation Project. Any failure of acquisition of operating cost components at prescribed level would materially affect the gross margin of the Power Generation Project. As a result, the expected profit and value of the Target Company would be also under risk.

On-grid Power Tariff Fluctuation

On-grid power tariff is an essential value driver to the Target Company. Volatility in the on-grid power tariff will cause direct effect on the valuation. Should the on-grid power tariff be taken at a different level, the value conclusion might be higher or lower.

Government Policy Change

Our valuation of the Target Company is reliant on the existing government policy as it existed at the time of the valuation. Any changes in the government policy will result in a higher or lower valuation conclusion.

Greenfield Stage Development

The construction phase of a greenfield project is often considered to be the most uncertain and risky phase, as it involves building the entire infrastructure from scratch. This phase can be affected by various factors such as weather conditions, availability of resources and unforeseen circumstances. The Power Generation Project, currently at a greenfield stage, would face uncertainty and risk before commencement of operation which could have adverse impact on business operation of the Target Company.

STATEMENT OF LIMITING CONDITIONS

This valuation report relies upon the following contingent and limiting conditions:

1. We assume no responsibility for the legal matters including, but not limited to, legal or title concerns. Title to all subject business assets is assumed good and marketable.

2. The business interest and subject business assets have been valued free and clear of any liens or encumbrances unless stated otherwise. No hidden or apparent conditions regarding the subject business assets or their ownership are assumed to exist.

3. All information provided by the client and others is thought to be accurate. However, we offer no assurance as to its accuracy.

4. Unless stated otherwise in this report, we have assumed compliance with the applicable local laws and regulations.

5. Absent a statement to the contrary, we have assumed that no hazardous conditions or materials exist which could affect the Target Company or its assets. However, we are not qualified to establish the absence of such conditions or materials, nor do we assume the responsibility for discovering the same.

6. The report may not fully disclose all the information sources, discussions and business valuation methodologies used to reach the conclusion of value. Supporting information concerning this report is on file with our company.

7. The valuation analysis and conclusion of value presented in the report are for the purpose of this engagement only and are not to be used for any other reason, any other context or by any other person except the client to whom the report is addressed.

8. The opinion of value expressed in this report does not obligate us attend court proceedings with regard to the subject business assets, properties or business interests, unless such arrangements have been made previously.

9. Possession of this report does not imply a permission to publish the same or any part thereof. No part of this report is to be communicated to the public by means of advertising, news releases, sales and promotions or any other media without a prior written consent and approval by us.

10. This report is valid only for the date specified herein.

CONCLUSION OF VALUE

In conclusion, based on the analyses as fully described in this valuation report and the valuing methodologies which we have employed, we are of the opinion that the Fair Value of 49% equity interest in PowerChina Panzhou Low Calorific Value Coal Power Generation Company Limited as at 30 June 2023 is as follows.

Subject of Valuation	Valuation Result
49% Equity Interest in PowerChina Panzhou Low Calorific Value Coal Power Generation Company Limited	RMB5,118,000

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor any prospective interests in the subject under valuation. Moreover, we have neither personal interests nor any bias with respect to the any of the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,

For and on behalf of
Valtech Valuation Advisory Limited

INVOLVED STAFF BIOGRAPHY

Max K.P. Tsang, *CPA, CFA, FRM, MRICS, MStat*

Mr. Tsang has been working in the professional valuation field since 2011. Before joining the valuation field, he worked in banking and finance sector from 2008 to 2010. Mr. Tsang has been leading a team of business valuation for private and listed companies for the purposes of financial reporting, initial public offerings, mergers and acquisitions, financing, tax and litigation support. The scope of services includes business valuation and intangible asset valuation.

He has performed valuation and provided fairness opinion for listed companies in the United States, Australia and Germany. He has participated in many representative projects, such as valuation of global luxury brands, oil and gas extraction in the United States and Canada, BOT infrastructural project, solar and wind power plants, banks, logistic hub in Singapore, toll road in the United Kingdom, container port in Brazil and premium food manufacturer in Spain.

He has provided valuation advisory services for private equity funds in Hong Kong and the PRC regarding fair value assessment of the general partner's stakes and investment portfolios for valuation control and financial reporting purposes (including compliance with IFRS 9). The investment portfolios included renowned internet and technology companies as well as infrastructural projects in China.

He has also served as the expert witness for litigation. He is also experienced in valuation of overseas project for State-owned Assets Supervision and Administration Commission of the State Council (SASAC) filing in the PRC. The valuation reports prepared by Mr. Tsang and his team have been regularly referenced by Hong Kong listed companies in their circulars, including companies in agriculture, retail, mining, internet, automobile, education, financial services, multimedia, internet, real estate, entertainment, electronic equipment and infrastructural sectors.

Keith Lui, *CFA, FRM*

Mr. Lui is a Bachelor of Science in quantitative finance and risk management science in university and has been working in the professional valuation field since 2013. Mr. Lui has been joining in business valuation industries for private and listed companies for the purposes of financial reporting, initial public offerings, mergers and acquisitions and financing since graduation. The scope of services includes business valuation, intangible asset valuation and financial instruments valuation.

He has participated in many representative projects, such as valuation of metal mining and processing in the PRC, oil and gas extraction in the United States and Canada, logistic hub in Singapore, container port in Brazil and household cleaning products in the United Kingdoms.

He has provided valuation advisory services for private equity funds in Hong Kong and the PRC regarding fair value assessment of the general partner's stakes and investment portfolios for valuation control and financial reporting purposes (including compliance with IFRS 9). The investment portfolios included renowned internet and technology companies in the PRC.

He is also experienced in valuation of overseas project for State-owned Assets Supervision and Administration Commission of the State Council (SASAC) filing in the PRC. The valuation reports prepared by Mr. Lui has been referenced by Hong Kong listed companies in their circulars, including companies in agriculture, mining, internet and real estate sectors.

Bobby Zhu

Bobby Zhu has valuation experiences in various industries including but not limited to clean energy, manufacturing, utility and infrastructure, mining, etc. Prior to joining Valtech Valuation, he worked in another sizeable valuation firm where he participated in many business valuation projects to support clients for the purpose of financial reporting, mergers and acquisitions. He has also gained experiences in performing valuation of projects for State-owned Assets Supervision and Administration Commission of the State Council (SASAC) filing in the PRC. Earlier to that, he worked as Corporate Financial analyst in Sony and Dell and Corporate Auditor in Natuzzi China. Bobby earned his Financial Management Degree from Shanghai University of Finance& Economics.

GENERAL SERVICE CONDITIONS

The service(s) we provide will conform to the professional appraisal standard. The proposed service fee is not contingent in any way upon our conclusions of value or result. All the data provided to us are assumed to be accurate without independent verification. As an independent contractor, we have and will reserve the right to use subcontractors. Furthermore, we have the right to retain all files, working papers or documents developed by us during the engagement for as long as we wish, which will also be our property.

The report we prepare is prohibited for any other use but only for the specific purpose stated herein. No reliance may be made by any third party on the report or part thereof without our prior written consent. The report along with this General Services Conditions could be shown to the third parties who need to review the information contained herein.

No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent. You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including all fees of lawyers, including ours and the parties successfully suing us, to which we may become subject in connection with this engagement except in respect of our own negligence. Your obligation for indemnification and reimbursement shall extend to any of our management and employees, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless the nature of the claim, such liability will be limited to the amount of fees we received for this engagement.

We will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative processes or proceedings. Meanwhile, we reserve the right to include your company/firm name in our client list.

The conditions stated in this section can only be modified by written documents executed by both parties.

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

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 herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors

(a) Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Listing Rules, were as follows:

(i) Long positions in Shares

Name of Director	**Capacity/nature of interest**	**Total number of Share(s) held**	**Approximate % of the total issued share capital of the Company** *(Note 2)*
Mr. Yu Bangping	Interest in controlled corporation *(Note 1)*	864,000,000	54.00

Notes:

(1) Mr. Yu Bangping owns the entire issued share capital of Lucky Street Limited which owns approximately 61.21% of the issued share capital of Spring Snow. Spring Snow owns 54.00% of the issued share capital of the Company. Mr. Yu Bangping is deemed to be interested in the 864,000,000 Shares held by Spring Snow for the purpose of the SFO.

(2) The percentage shareholding in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date, that is, 1,600,000,000 Shares.

(ii) Long positions in the shares of the associated corporations

Name of Director	**Name of associated corporation**	**Nature of interest**	**Total number of shares held in the associated corporation**	**Approximate % of interest in the associated corporation** *(Note 3)*
Mr. Yu Bangping	Spring Snow	Interest in controlled corporation *(Note 1)*	6,120,581	61.21
Mr. Wang Shize	Spring Snow	Interest in controlled corporation *(Note 2)*	287,364	2.87

Notes:

(1) Mr. Yu Bangping owns the entire issued share capital of Lucky Street Limited which owns approximately 61.21% of the issued share capital of Spring Snow. By virtue of the SFO, Mr. Yu Bangping is deemed to be interested in 6,120,581 shares of Spring Snow held by Lucky Street Limited.

(2) Mr. Wang Shize owns the entire issued share capital of Seasons In The Sun Limited which owns approximately 2.87% of the issued share capital of Spring Snow. By virtue of the SFO, Mr. Wang Shize is deemed to be interested in 287,364 shares of Spring Snow held by Seasons In The Sun Limited.

(3) The percentage shareholding in Spring Snow is calculated by reference to the number of shares in issue as at the Latest Practicable Date, that is, 10,000,000 shares.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the

SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors and the chief executive, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the Shares

Name of shareholder	**Nature of interest**	**Total number of Shares held**	**Approximate % of the total issued share capital of the Company** *(Note 3)*
Spring Snow	Beneficial owner *(Note 1)*	864,000,000	54.00
Lucky Street Limited	Interest in controlled corporation *(Note 1)*	864,000,000	54.00
Ms. Qu Liumei	Interest of spouse *(Note 2)*	864,000,000	54.00

Notes:

(1) 864,000,000 Shares are held by Spring Snow. Spring Snow is owned as to approximately 61.21% by Lucky Street Limited which is wholly owned by Mr. Yu Bangping.

(2) Ms. Qu Liumei is the spouse of Mr. Yu Bangping and is therefore deemed to be interested in all the Shares held by Mr. Yu Bangping (through Lucky Street Limited and Spring Snow) by virtue of the SFO.

(3) The percentage shareholding in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date, that is, 1,600,000,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

As at the Latest Practicable Date, so far as known to the Directors, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Enlarged Group which would not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in a business which competes or is likely to compete either directly or indirectly with the business of the Group.

6. DISCLOSURE OF OTHER INTERESTS

As at the Latest Practicable Date:

(a) none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Enlarged Group; and

(b) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2022 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, disposed of by, or leased to any member of the Enlarged Group.

7. MATERIAL CONTRACT

The following contract (not being contract in the ordinary course of business) has been entered into by the members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which is or may be material:

(a) the Investment Cooperation Agreement.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following is the qualification of the experts who have given opinions or advice which are contained or referred to in this circular:

Name	**Qualification**
Deloitte Touche Tohmatsu	Certified Public Accountants
Valtech Valuation Advisory Limited	Valuer

(collectively, the "**Experts**")

(i) As at the Latest Practicable Date, each of the Experts did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(ii) Each of the Experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its report, letter and references to its name in the form and context in which they appear.

(iii) As at the Latest Practicable Date, none of the Experts has any direct or indirect interest in any assets which had been, since 31 December 2022 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, disposed of by, or leased to any member of the Enlarged Group.

9. MISCELLANEOUS

(a) The secretary of the Company is Mr. Chan Kwong Leung, Eric who is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute.

(b) The registered office of the Company is at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(c) The principal place of business of the Company in Hong Kong is at Unit 1003, 10th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong.

(d) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.perennialenergy.hk) for a period of 14 days from the date of this circular:

(a) the Investment Cooperation Agreement;

(b) the accountants' report of the Target Company, the text of which is set out in Appendix II to this circular;

(c) the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(d) the Valuation Report from Valtech Valuation Advisory Limited on the Target Company as set out in Appendix V to this circular; and

(e) the consent letters referred to in the paragraph under the heading "Qualifications and Consents of Experts" in this Appendix to this circular.