THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China HK Power Smart Energy Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or transferee(s).

中国港能
CHINA HK POWER

CHINA HK POWER SMART ENERGY GROUP LIMITED
中國港能智慧能源集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 931)

MAJOR TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY INVOLVING ISSUE OF INITIAL CONSIDERATION SHARES UNDER GENERAL MANDATE

Capitalised terms used on this cover page shall have the same meanings as those defined in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 5 to 19 of this circular.

The Company has obtained written Shareholders' approval for the Sale and Purchase Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules from the relevant Shareholder who holds more than 50% of the total issued Shares giving the right to attend and vote at a general meeting. Accordingly, no Shareholders' meeting will be held to approve the Sale and Purchase Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

This circular is being despatched to the Shareholders for information only.

16 January 2024

CONTENTS

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

"Acquisition"	the acquisition of the entire equity interest of the Target Company pursuant to the terms and conditions of the Sale and Purchase Agreement
"Adjustment"	the Initial Consideration Shares are subject to adjustment arrangement to determine the Final Consideration Shares pursuant to the Sale and Purchase Agreement, details of the Adjustment are set out in the paragraph headed "Profit Guarantee and Adjustment Arrangement"
"Announcement"	the announcement of the Company dated 21 December 2023 in relation to the Acquisition
"Board"	the board of Directors of the Company
"Business Day"	a day (other than Saturdays, Sundays and public holidays in Hong Kong and such other days where a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above is in force in Hong Kong), on which licensed banks in Hong Kong are open for business throughout their normal business hours
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Company"	China HK Power Smart Energy Group Limited (formerly known as "China LNG Group Limited"), an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange (stock code: 931)
"Completion"	the completion of the Acquisition
"Director(s)"	the director(s) of the Company
"Dr. Kan"	Dr. Kan Che Kin, Billy Albert, an executive Director and a substantial shareholder holding approximately 58.96% of the total issued share capital of the Company as at the date of the Announcement
"Enlarged Group"	the Group as enlarged by the Acquisition
"Final Consideration"	the Initial Consideration as adjusted (if any) pursuant to the Sale and Purchase Agreement

"General Mandate"	the general mandate granted to the Directors pursuant to the ordinary resolution of the Shareholders passed at the annual general meeting of the Company held on 25 August 2023, which allowed the Directors to allot, issue and/or deal with up to 1,128,759,418 Shares, representing 20% of the total number of issued Shares as of the date on which such general mandate was granted
"Group"	the Company and its subsidiaries
"Guaranteed Profit"	the aggregated net profit after tax excluding all extraordinary items of the Target Group recognized by the auditor's report in accordance with HKFRSs issued by the audit firm mutually agreed by the Company for the Profit Guarantee Period, shall not be less than RMB31,844,400
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	person(s) who, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, is not a connected person of the Company pursuant to the Listing Rules
"Initial Consideration"	the Initial Consideration for the acquisition of the entire equity interest of the Target Company, being HK$100,000,000, payable by the Company to the Sellers by way of Initial Consideration Shares, subject to the Adjustment
"Initial Consideration Shares"	an aggregate of 232,558,140 new Shares to be allotted and issued by the Company under the General Mandate at the Issue Price as settlement of the Initial Consideration, pursuant to the terms of the Sale and Purchase Agreement, which 116,279,070 shares will be allotted and issued to Sunland and 116,279,070 shares will be allotted and issued to Old Boy, subject to the Adjustment
"Issue Price"	HK$0.43 per Initial Consideration Share
"Last Trading Day"	21 December 2023, being the last trading day of the Shares before the signing of the Sale and Purchase Agreement
"Latest Practicable Date"	11 January 2024, being the latest practicable date prior to the printing of this circular
"Listing Committee"	the Listing Committee of the Stock Exchange

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	30 April 2024 or other date as mutually agreed among the parties to the Sale and Purchase Agreement in writing
"Old Boy"	Old Boy Limited, a company incorporated in the British Virgin Islands with limited liability and is ultimately controlled by Mr. Chen Leixin
"PRC"	the People's Republic of China, which shall for the purpose of Company this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Profit Guarantee Period"	the three consecutive financial years commencing from 1 April 2024 and ending on 31 March 2027
"Project Company"	OaseTECH Energy Technology (Wuxi) Company Limited(翺途能源科技(無錫)有限公司), a company incorporated in the PRC with limited liability which is wholly owned by WFOE and indirectly wholly-owned by the Sellers, upon completion of the Reorganisation and immediately before the Completion
"Reorganisation"	the restructuring arrangement of the companies in the Target Group in accordance with the terms of the Sale and Purchase Agreement, to the effect that the Target Company will own the entire equity interests in the Project Company
"Repurchase Shares"	the difference in number of Shares between the Final Consideration Shares and the Initial Consideration Shares
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 21 December 2023 entered into between the Company and the Sellers in relation to the Acquisition
"Sale Shares"	10,000 shares in the share capital of the Target Company, being the entire issued share capital of the Target Company
"Sellers"	Sunland and Old Boy
"Share(s)"	ordinary share(s) of HK$0.02 each in the share capital of the Company
"Shareholder(s)"	registered holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Sunland"	Sunland Limited, a company incorporated in the British Virgin Islands with limited liability and is ultimately controlled by Mr. Chen Leixin
"Target Company"	Oasetech Limited, a company incorporated in the British Virgin Islands with limited liability which is owned as to 50% by Sunland and 50% by Old Boy upon completion of the Reorganisation and immediately before the Completion
"Target Group"	Target Company and its subsidiaries upon completion of the Reorganisation
"Valuer"	Access Partner Consultancy & Appraisals Limited, an independent valuer appointed by the Company
"WFOE"	Aozhi Energy Technology (Yixing) Company Limited*（翱志能源科技（宜興）有限公司）, a company incorporated in the PRC which is indirectly wholly-owned by the Target Company
"Written Approval"	the written approval in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder by Dr. Kan pursuant to Rule 14.44 of the Listing Rules
"%"	per cent

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

CHINA HK POWER SMART ENERGY GROUP LIMITED
中國港能智慧能源集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 931)

Executive Directors:
Dr. Kan Che Kin, Billy Albert *(Chairman)*
Mr. Deng Yaobo *(Chief executive officer)*
Mr. Li Kai Yien, Arthur Albert

Non-executive Directors:
Mr. Simon Murray
Dr. Lam, Lee G.

Independent Non-executive Directors:
Mr. Li Siu Yui
Mr. Chow Ching Ning
Mr. Lam Lum Lee

Registered Office:
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Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong:
8th Floor, St. John's Building
33 Garden Road
Central
Hong Kong

16 January 2024

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

Reference is made to the Announcement in relation to the Acquisition. On 21 December 2023 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Sellers in relation to the Acquisition, pursuant to which the Sellers have conditionally agreed to sell, and the Company has conditionally agreed to purchase, the Sale Shares, representing the entire issued share capital of the Target Company at a Initial Consideration of HK$100,000,000 (subject to the Adjustment), which shall be satisfied by the allotment and issue of 232,558,140 Initial Consideration Shares at the Issue Price of HK$0.43 per Initial Consideration Share to the Sellers under the General Mandate upon Completion credited as fully paid.

The purpose of this circular is to provide you with, among other things, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) financial information of the Target Company; (iii) unaudited pro forma financial information of the Group as enlarged by the Acquisition; (iv) the valuation report in relation to the Target Group; and (v) general information and the transactions contemplated thereunder and such other information in accordance with Listing Rules.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are summarized below:

Date: 21 December 2023 (after trading hours)

Parties: (a) the Company as the buyer

(b) Sunland and Old Boy, as the Sellers

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to acquire, and the Sellers have conditionally agreed to sell, the Sale Shares, representing the entire issued share capital of the Target Company at an Initial Consideration of HK$100,000,000 (subject to the Adjustment). The Company will settle the Initial Consideration by the allotment and issue of 232,558,140 Initial Consideration Shares at the Issue Price of HK$0.43 per Initial Consideration Share to the Sellers under the General Mandate upon Completion credited as fully paid.

The Target Company is a company incorporated in the British Virgin Islands principally engaged in investment holding, as at the date of the Announcement, the Sale Shares are held as to 50% by Sunland and as to 50% by Old Boy. For further information on the Target Company, please refer to the section headed "Information on the Target Group" below.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, each of Sunland and Old Boy and their ultimate beneficial owners is an Independent Third Party.

Initial Consideration

The Initial Consideration payable by the Company for the Acquisition is HK$100,000,000 (subject to the Adjustment) and the Company will settle the Initial Consideration by the allotment and issue of an aggregate of 232,558,140 Initial Consideration Shares at the Issue Price of HK$0.43 per Initial Consideration Share to the Sellers under Generate Mandate upon Completion credited as fully paid.

The Initial Consideration was determined after arm's length negotiations between the Sellers and the Company on normal commercial terms with reference to (i) the historical financial performance of the Target Group pursuant to its audited financial statements for the years ended 31 December 2020, 2021 and 2022 and 31 July 2023; (ii) the net asset value of the Target Group as at 31 July 2023 prepared based on HKFRSs of approximately HK$25,167,000; (iii) the business overview and prospect of the Target Group; the adjustment mechanism of the Initial Consideration which is subject to downward adjustments depending on the achievement of the Guaranteed Profit by the Sellers; (v) the preliminary valuation of the Target Group of approximately RMB95,000,000 (equivalent to approximately HK$103,645,000) based on market approach as at 31 July 2023 conducted by Access Partner Consultancy & Appraisals Limited, an independent professional valuer engaged by the Company; and (vi) the reasons for and benefits of the Acquisition as stated under the section headed "Reasons for and benefits of the Acquisition" below.

Valuation

According to the valuation report prepared by the Valuer, the appraised value of the entire equity interest of the Target Group as at 31 July 2023 was approximately RMB95,000,000. The Valuer adopted the market approach as its valuation methodology to arrive at a concluded market value of the Target Group which reflects market expectations in the corresponding industry as the price multiples of the comparable companies were derived from market consensus.

Under such a method, the Valuer first assessed the value of entire enterprise value of the Target Group based on the annualized revenue of the Target Group for the seven months period ended 31 July 2023 (the "**Valuation Date**"), being the latest available audited financial information of the Target Group, and the enterprise Price-to-Sales (P/S) multiples (after adjustments for lack of marketability discount and control premium) from an exhaustive list of comparable companies identified by the Valuer with business scopes and operations similar to those of the Target Group with reference to selection criteria including significant portions of the assets or businesses of the companies involve development and production of innovative energy technology products and integrated solutions in China, akin to the Target Group's business; the companies having pertinent listing and operating histories; and the financial information and relevant multiple of the companies are available to the public.

The Valuer adopted seven comparable companies and considered the P/S multiples of such comparable companies as of the Valuation Date as extracted from Bloomberg and took the mid-point of the median and average of such multiples to arrive at the enterprise value of the Target Group. The Board has discussed with the Valuer the selection criteria and assessed the appropriateness of the comparable companies selected. Based on the information available, the Valuer has researched and studied public companies in different stock exchanges, which have the majority of their revenue attributable to the development and production of innovative energy technology products and integrated solutions, filtered with the trailing 12-month earnings per shares of comparable companies which were negative in considering the current loss-making of the Target Group. The Board considers that, based on the representations and steps taken by the Valuer, the comparable companies chosen would represent an exhaustive list of companies publicly available which are comparable and meet all of the selection criteria stated above.

For the purpose of calculating the annualized revenue of the Target Group, the latest audited revenue of the Target Group for the seven months ended 31 July 2023 was adopted as the base to calculate the fraction of the year to project the Target Group's annual revenue, the decrease in the latest audited revenue that attributed to the decline in project execution brought by the impact of the COVID-19 pandemic, which has resulted in a lack of confidence from investors and enterprises, leading to the pause or cancellation of projects during the second half of 2021 and 2022, resulted in a decrease in revenue of the Target Group for the seven months ended 31 July 2023 has been taking into consideration. The Directors are in the view that the Target Group is gradually recovering from the pause or cancellation of projects, certain revenue from the execution of anticipated future contracts shall rise in the first quarter of 2024, the use of annualized revenue as an indicator of the market value is a meaningful and reasonable input in the valuation of the Target Group, which is representative and remains achievable taking into account the Target Group's historical financial performance and its latest financial information after 31 July 2023 and the great likelihood of future contracts.

The enterprise value of the Target Group is further adjusted by (i) a discount for lack of marketability to account for the fact that the Target Group was privately held and (ii) cash, debts and net non-operating assets to conclude the equity value of the Target Group as a whole.

As the historical financial performance and valuation results could provide a reference point, which may not be the sole or primary factors in determining the Initial Consideration, other factors such as current market conditions and industry trends, synergies, willingness of the Sellers to sell and the Company's desire to acquire the Target Company and their relative importance certainly have an impact on the determination of the Initial Consideration. The parties involved were engaged in arm's length negotiations to reach a mutually acceptable Initial Consideration that reflects the commercial value and long-term prospects of the Target Company, after considering relevant factors and aligning with respective interests and objectives, allowing for a holistic assessment of the value. The Directors (including the independent non-executive Directors) consider that the Initial Consideration is fair and reasonable and on normal commercial terms and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Initial Consideration Shares

The 232,558,140 Initial Consideration Shares representing approximately 4.05% of the issued share capital of the Company as of the date of the Announcement and approximately 3.89% of the issued share capital of the Company as enlarged by the allotment and issue of the Initial Consideration Shares (assuming there will be no change in the total number of issued Shares of the Company between the date of the announcement and the allotment and issue of the Initial Consideration Shares).

The issue price of HK$0.43 per Initial Consideration Share represents:

(i) a discount of approximately 1.16% to the closing price of HK$0.435 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(ii) a discount of approximately 1.16% to the average closing price of HK$0.435 per Share as stated in the Stock Exchange's daily quotation sheets for the last five consecutive trading days immediately preceding the date of the Sales and Purchase Agreement.

(iii) a discount of approximately 2.56% to the average closing price of HK$0.441 per Share as quoted on the Stock Exchange for the last ten consecutive trading days prior to the date of the Sale and Purchase Agreement

The issue price of HK$0.43 per Initial Consideration Share was arrived at after arm's length negotiation between the Sellers and the Company with reference to, among others, the then prevailing market price of the Shares, the average closing price of approximately HK$0.441 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Sale and Purchase Agreement and the then market conditions. The Sellers are not expected to become a substantial shareholder of the Company upon Completion and the allotment and issue of the Initial Consideration Shares will not result in a change of control of the Company. Accordingly, the Directors (including the independent non-executive Directors) consider that the Issue Price is fair and reasonable and the allotment and issue of the Initial Consideration Shares at such Issue Price is in the interests of the Company and the Shareholders as a whole.

The aggregate nominal value of the Initial Consideration Shares is HK$4,651,163.

The Initial Consideration Shares will be allotted and issued pursuant to the General Mandate. Under the General Mandate, the Directors are allowed to allot and issue up to 1,128,759,418 Shares, representing 20% of the issued share capital of the Company as of the date on which the General Mandate was granted. As at the date of the Announcement, a total of 100,000,000 Shares have been issued by the Company pursuant to the General Mandate. The General Mandate is sufficient for the allotment and issue of the Initial Consideration Shares, accordingly, the issue of the Initial Consideration Shares is therefore not subject to the approval of the Shareholders.

An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Initial Consideration Shares. The Initial Consideration Shares, when issued and fully paid, will rank pari passu in all respects with each other and with the Shares in issue at the time of issue of the Initial Consideration Shares, except that the holder(s) of the Initial Consideration Shares shall not be entitled to receive the dividend, distribution or entitlement declared, paid or made by reference to a record date prior to the date of allotment and issue of the Initial Consideration Shares.

Lock-up of Initial Consideration Shares

The Sellers, jointly and severally, and irrevocably undertake to the Company that all Initial Consideration Shares shall be subject to a lock-up period of 12 calendar months from the date of completion of the issuance, during which the Sellers shall not transfer, charge, encumber or dispose of any such Initial Consideration Shares without the consent of the Company. Upon expiration of the 12-month lock-up period and until 30 September 2027, the Sellers may sell or otherwise dispose of the Initial Consideration Shares in the event that the relevant Initial Consideration Shares were disposed at the aggregated total number of Shares of no more than 23,256,000 and the aggregated total value of no more than HK$10,000,000, represents approximately 10% of total number of Initial Consideration Shares.

The Sellers have made the legally binding commitment to the Company to retain approximately 90% of the Initial Consideration Shares to ensure that there are enough Repurchase Shares available in case the Target Company fails to meet the Guaranteed Profit. The retention of a significant portion of the Initial Consideration Shares provides a buffer to fulfill potential repurchase obligations and ensuring a safeguard in case the Target Company does not meet the Guaranteed Profit.

Profit guarantee and Adjustment arrangement

Pursuant to the Sale and Purchase Agreement, the Sellers, irrevocably guarantee and undertake on a joint and several basis to the Company that the aggregated net profit after tax excluding all extraordinary items of the Target Group recognized by the auditor’s report issued by the audit firm mutually agreed by the Company, shall not be less than RMB31,844,400 (the “**Guaranteed Profit**”) for the three consecutive financial years commencing from 1 April 2024 and ending on 31 March 2027 (the “**Profit Guarantee Period**”).

In the event that the aggregated actual consolidated net profit after tax excluding all extraordinary items as shown in the audited financial statements (to be prepared by the auditor in accordance with HKFRSs) of the Target Group for the three consecutive financial years ending 31 March 2027 (the "**Actual Net Profit**") shall be less than the Guaranteed Profit, the Initial Consideration shall be adjusted downward to determine the Final Consideration Shares# as follows:

$$\text{Repurchase Shares} = \frac{\text{Guaranteed Profit} - \text{Actual Net Profit}}{\text{Guaranteed Profit}} \times \frac{\text{Initial Consideration}}{\text{Issue Price}}$$

round down to the nearest integer

Provided always that the Final Consideration Shares shall not be more than the Initial Consideration Shares and if the Actual Net Profit is at a loss, the Final Consideration Shares shall be zero. The difference between the Final Consideration Shares and the Initial Consideration Shares shall be referred to as the "**Repurchase Shares**".

The Sellers, on a joint and several basis, shall, within one month after the audited financial statements for the Guarantee Period is made available, compensate for the Repurchase Shares to the Company. The Company will (i) repurchase and cancel all the Repurchase Shares at a nominal consideration of HK$1 and (ii) require the Sellers to return all distribution and dividends declared and paid by the Company (if any) before such repurchase, in which case the Company will carry out the share repurchase after obtaining all regulatory approval(s).

The Target Group achieved an audited net profit after tax of approximately HK$14 million for the three financial years from January 2020 to December 2022, this profit is notable considering the challenging business environment caused by the COVID-19 pandemic, which mainly attributed to the unique competitive advantages of the Target Group in respects of (i) the utilisation of advanced energy conversion technologies to improve energy efficiency, including combined heat and power (CHP), waste heat recovery, and optimized design of the pipe network. additionally, the integration of customized OaseTECH patented components has played a crucial role in achieving substantial improvements in energy consumption, with an approximate 30% reduction; (ii) use of BIM modular integrated design, with prefabricated modules and branch pipes to enhance construction efficiency and quality, leading to faster project delivery and improved customer satisfaction; (iii) its in-house developed OT-IES Smart Energy System and OT-IES IoT Smart Cloud Platform, along with extensive portfolio of more than 45 patents in terms of invention, design and utility model patents, in addition to the ISO9001, ISO14001, ISO45001, CE Certification and TUV Certification obtained by the Project Company, demonstrates the strong commitment to innovation and its ability to deliver advanced and comprehensive solutions in the field of smart energy.

The Target Group has an intelligent manufacturing production base covering an area of 13,250 square meters equipped with advanced energy system production lines and robotic automated welding and stretching can production process. Limited capital has indeed presented challenges to business volume development and growth, the Target Group will expand its business to EMC (Energy Management and Conservation) and EaaS (Energy-as-a-Service) business models with the support of the Company, to seize the market opportunities arising from the implementation of the national "double carbon" policy, which is a strategic move for the Target

Group. In addition, the Target Group's management is actively negotiating for more than 17 contracts, it is anticipated that approximately RMB255 million and approximately RMB130 million contracts will be concluded in 2024 and 2025 respectively. Amongst the 17 contracts, four are in final stage of contract negotiation for terms to be finalized and to proceed to signing, six are in project design stage with technical proposals submitted and awaiting for approval from customer side for entering into contract negotiation stage, seven are in commercial negotiation with site visits conducted or being conducted and proposals in draft or initial proposals submitted.

Management of the Target Group anticipates achieving approximately RMB300 million in revenue and approximately RMB33.8 million in net profit over the next three years from the execution of existing and future contracts. The Directors have conducted a comparative review of the three-year business plan and the projection provided by the management of the Target Group, taking into consideration the current performance of the Target Group and the reasons for the revenue variance for the three years ended 31 December 2022 and for the period ended 31 July 2023. The Board considers the likelihood of successfully executing aforementioned contracts and achieving the desired outcomes appears to be great for the Target Group, the positive factors are (a) the Target Group has a track record of successful contract execution and a strong reputation in the industry; and (b) the Target Group has established a long-term business relationship with the potential customers, indicating a level of trust and confidence in their abilities contribute to a smoother execution process and foster collaboration.

Having considered the above, the Board is of the view that there is a mechanism under the Sale and Purchase Agreement in respect of the Adjustment of the Initial Consideration to safeguard the interest of the Company and its Shareholders as a whole. The Directors consider that the Initial Consideration, Final Consideration, Issue Price for the Initial Consideration Shares together with the above profit guarantee and adjustment arrangement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Conditions Precedent

Completion of the Sale and Purchase Agreement is subject to the satisfaction (or waiver in accordance with the Sale and Purchase Agreement) of the following conditions precedent:

Conditions precedent for the benefits of all parties

1. the transactions contemplated under the Sale and Purchase Agreement having complied with applicable laws of relevant jurisdictions, and having obtained all approvals, consents, clearance or waivers from all relevant governmental authorities;

2. no notice that the transactions contemplated under the Sale and Purchase Agreement shall be treated as or decided (as the case may be) by the Stock Exchange as reverse takeover or extreme transaction under the Listing Rules having been received;

3. completion of the Reorganisation;

Conditions precedent in favour of the Sellers

4. all the warranties of the Company under the Sale and Purchase Agreement in all material respects remaining true and accurate and not misleading in any respect as of the Completion, as though such representations and warranties were made on and as of the Completion;

5. the Company having performed and complied in all material respects with all agreements and obligations required by the Sale and Purchase Agreement to be performed and complied by it prior to the Completion;

6. the Sellers having received a certified true copy of the resolutions of the Board of the Company approving, among other things, execution and the performance of the Sale and Purchase Agreement, including the allotment and issue of the Initial Consideration Shares to the Sellers;

Conditions precedent in favour of the Company

7. there is no material adverse change in the business or financial conditions of each member of the Target Group since the date of the Sale and Purchase Agreement;

8. all the warranties of the Sellers remaining true and accurate and not misleading in any respect as of the Completion, as though such representations and warranties were made on and as of the Completion;

9. each of the Sellers having performed and complied in all material respects with all agreements and obligations required by the Sale and Purchase to be performed and complied with by them prior to the Completion;

10. the Shareholders (other than those Shareholders as required under the Listing Rules to abstain from voting to approve the execution of the Sale and Purchase Agreement and the transactions contemplated thereby) having passed resolutions approving the execution, delivery and performance of the Sale and Purchase Agreement;

11. the Company having obtained all necessary approvals, consents, clearance and waivers (if applicable) under the Listing Rules and any applicable laws from the regulatory authorities, including the Stock Exchange in respect of the transactions contemplated by the Sale and Purchase Agreement;

12. the Listing Committee having granted or agreed to grant (either unconditional or conditional) the listing of, and permission to deal in the Initial Consideration Shares, and where any such grant or permission is subject to conditions, such conditions being acceptable to the absolute discretion of the Company;

13. the legal or other advisers of the Company having completed due diligence reviews on the Target Group, and are satisfied with the results of such reviews in all respects;

14. tax filing with the PRC tax authority for the transactions contemplated under the Sale and Purchase Agreement having been completed, and the tax arising from the transaction under the Sale and Purchase Agreement required to be paid to the PRC tax authority having been paid or settled to the satisfaction of the Company; and

15. all other consents, approvals, authorizations and waivers as may be required or necessary under any instrument, contract, document or agreement to which the Sellers is a party or by which the Sellers or their assets are bound, for the sale and transfer of the Sale Shares as contemplated under the Sale and Purchase Agreement.

The above conditions precedent set out in 1 to 3 are made in favour of all parties to the Sale and Purchase Agreement; the conditions precedent set out from 4 to 6 are made in favour of the Sellers; while conditions precedent set out from 7 to 15 are made in favour of the Company. Only the parties which have the benefit of a condition precedent shall be entitled to waive (to the extent that it is capable of waiving) that condition precedent by giving written notice to the other parties to the Sale and Purchase Agreement and such waiver may be subject to the terms and conditions as the party waiving may require. For avoidance of doubt, no conditions precedent set out in 1, 2, 3 and from 10 to 12 may be waived by any party.

If any of the conditions precedent set out above has not been satisfied before the Long Stop Date or waived in accordance with the above terms, the party for the benefit of whom the conditions precedent that are not satisfied or waived may terminate the Sale and Purchase Agreement by written notice to the other parties. If the conditions precedent set out in 1, 2 or 3 has not been satisfied before the Long Stop Date, the Sellers (acting jointly) or the Company may, in its own discretion, terminate the Sale and Purchase Agreement by written notice to the other parties.

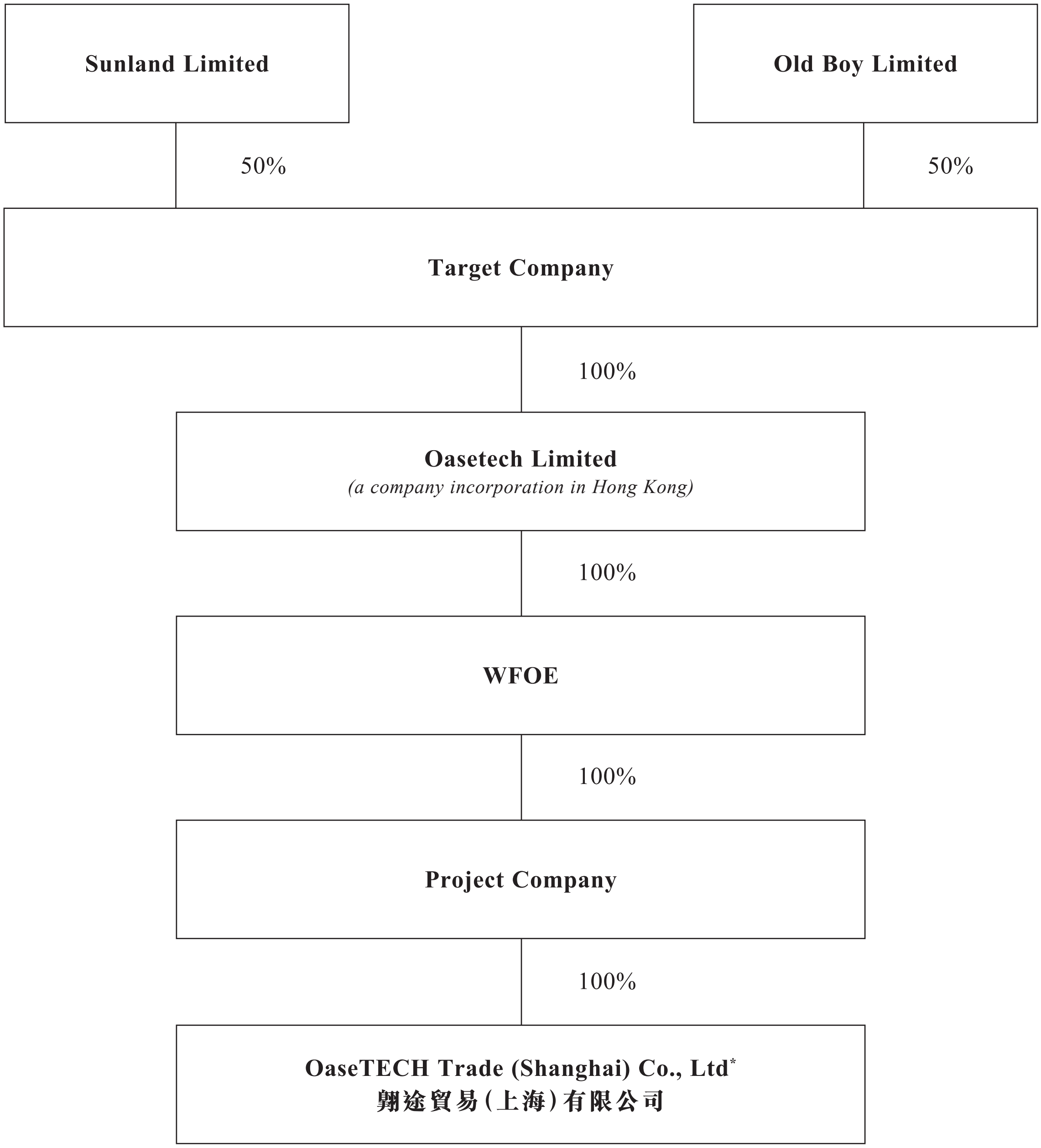
As at the date of the Sale and Purchase Agreement, Written Approval was obtained from Dr. Kan, which held approximately 58.96% of the entire issued share capital of the Company at that time, approving the Acquisition. Accordingly, condition 10 was satisfied as at the date of the Sale and Purchase Agreement. The other conditions precedent have not been satisfied as at the Latest Practicable Date.

Reorganisation

Pursuant to the Reorganisation under the Sale and Purchase Agreement, the Target Group would undergo a reorganisation so that the entire equity interest of the Project Company will be wholly owned by the Target Company indirectly. Upon completion of the Reorganisation, the Target Group will comprise, among others, the Target Company as the investment holding company and the Project Company specialized in the development and production of innovative energy technology products and integrated solutions, with a focus on cooling and heating sectors, in the PRC. Upon Completion, the Target Group will be consolidated into the Group.

Before the Reorganisation, Project Company was directly owned as to 45% by Mr. Chen Leixin, 25% by Mr. Huang Jianhui, 10% by Mr. Gao Huaibao, 10% by Mr. Gao Lei and 10% by Mr. Wang Quan, respectively.

Set out below is a chart showing the shareholding structure of the Target Group after the Reorganisation and immediately before Completion:



Completion

Upon the fulfilment of the conditions precedent, Completion shall take place on the 5th Business Day after the fulfillment or waiver (if applicable) of the conditions precedent under the Sale and Purchase Agreement or such other day as may be agreed in writing between the Sellers and the Company.

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

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of the Announcement, the Company has 5,743,797,090 Shares in issue. Set out below is a table showing the shareholding structure of the Company as at the date of the Announcement and immediately after Completion, assuming there will be no change in the total number of Shares in issue (other than the issue of the Initial Consideration Shares) from the date of the Announcement to the date of Completion:

	As at the date of the Announcement		**Immediately after the allotment and issue of the Initial Consideration Shares**	
Name of Shareholders	*Number of Shares*	*Approximate % shareholding*	*Number of Shares*	*Approximate % shareholding*
Directors:				
Dr. Kan(Note)	3,386,433,139	58.96%	3,386,433,139	56.65%
Mr. Li Kai Yien, Arthur Albert	200,000	0.01%	200,000	0.01%
The Sellers				
Sunland	–	–	116,279,070	1.95%
Old Boy	–	–	116,279,070	1.95%
Public Shareholders	2,357,163,951	41.03%	2,357,163,951	39.44%
Total:	5,743,797,090	100.00%	5,976,355,230	100.00%

Note:

5,000,000 shares among these Shares are held by Ground Up Profits Limited ("**Ground Up**"). Dr. Kan beneficially owns the entire issued share capital of Ground Up. Therefore he is deemed to be interested in all the Shares held by Ground Up by virtue of the SFO. Dr. Kan is the chairman of the Board and an executive Director. Dr. Kan is also a director of Ground Up.

Assuming there is no change in the issued share capital of the Company from the date of the Announcement to the date of Completion other than the allotment and issue of the Initial Consideration Shares, there will be no change to the control of the Company.

INFORMATION ON THE TARGET GROUP

The Target Company is a company newly incorporated in the British Virgin Islands principally engaged in investment holding. The total issued capital of the Target Company is in the sum of US$10,000 divided into 10,000 ordinary shares of US$1.00 each, which have been issued to and are fully paid up as to 50% by Sunland and 50% by Old Boy. The Target Company will be the holding company of the Target Group upon completion of the Reorganisation. After the Reorganisation, the Target Group's business will primarily be conducted by the Project Company.

Incorporated in 2017, the Project Company specialized in the development and production of innovative energy technology products and integrated solutions which involved energy control, hydraulic regulation and energy efficiency optimization. It has focused on the introduction, production, research and implementation of high efficiency energy stations, regional energy centres, civilian high efficiency chiller plants and waste heat recovery and utilization systems for many years. It is also engaged in energy management contract (EMC), engineering, procurement and construction (EPC) and equipment as a service (EaaS) in the energy provision field.

The Project Company offers its energy products and solutions to the following sectors spanning from (i) industrial, electricity, petrochemical, leading automotive and pharmaceutical, such as power plants, data centres, leading automobile factories and pharmaceutical factories, (ii) transportation hubs, such as western gateway airports, metro and high speed railway stations in multiple cities; (iii) leisure and recreation facilities, such as 5-star hotels, international conference centres; international expo centres and theme parks; (iv) commercial and residential buildings, such as Grade A office space, shopping malls, sports stadiums, hospital, residential properties and public and government properties; and (v) regional energy supply, such as energy station, regional energy centres, heat exchange stations district heating etc. These users require a constant supply of energy with high standards of technology reliability and security while also focus on energy and economic efficiency.

REASONS FOR AND BENEFITS OF THE ACQUISITION

While diligently developing its existing business, the Company continues to focus on the key strategic industry of clean energy and actively seeks suitable investment opportunities to enhance long-term growth and increase shareholder returns for promoting the diversification of existing business portfolio and broadening the sources of income in order to improve the business operations and financial position of the Company. The Company has been actively allocating its resources to the smart energy application, it has launched a series of new projects, the integration of the Target Group into the Company will expand the sources of income and the vertical optimization of the Group in the field as a whole.

The Project Company is engaged in the development and production of innovative energy technology products and integrated solutions in the PRC for many years and has market-leading technical capabilities and industry status, especially in the energy cooling and heating technologies application areas which have obtained multiple outstanding professional and technical commendations, it been well recognized in the industry and its main customers include the first-tier large companies in the automotive and pharmaceutical field.

With the aim of achieving the Group's strategic goal of capturing the market opportunities in smart energy in terms of developing distributed central heating services, the Group has entered into an investment agreement with a partnership enterprise. Pursuant to which to establish a project company in Shaanxi province in the PRC aiming to leverage the partner's marketing expertise to effectively promote and sell the distributed central heating services by replace traditional boilers with heat pumps and become the leading heating service provider in northern China in order to increase the variety of the Group's service and leverage on the increase in the popularity of clean energy.

Leverage the Target Group's excellent energy-saving technologies and its research and development ability and productivity, the Target Group will add synergy to the Group in its development of smart energy applications and continuously to take action to explore new business opportunities in order to expand its sources of revenue, enhance its profitability and create value for its shareholders. Also, the issuance of the Initial Consideration Shares to settle the Initial Consideration represents the confidence of the business partners in the prospect of the Company's development. The Directors consider that the Acquisition, if materialised, represents a good opportunity for the Group to expand its business to a new dimension, and to capture the business opportunities in connection with the centralized distribution heating and cooling ecosystem.

The Directors consider that the settlement of the consideration by the Initial Consideration Shares will enable the Group to (i) retain more cash for the general working capital requirements and future business development of the Group after Completion; and (ii) avoid weakening the Group's ability to meet its current liabilities as and when they fall due only with quick assets, thereby enabling the management of the Group to more flexibly and efficiently use of the cash resources readily available and utilise it for the Group's daily business operations and future business development. As a result, the Acquisition and the terms under the Acquisition Agreement are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

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

Earnings

Upon Completion, the Target Group will contribute income from sales of energy technology products to the Group and such income will enhance the revenue stream of the Group accordingly. The unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular has been prepared to illustrate the financial effect of the transactions contemplated under the Sale and Purchase Agreement.

Assets and Liabilities

Based on the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the total assets of the Group is expected to increase by approximately HK$85,593,000, the total liabilities of the Group is expected to increase by approximately HK$60,426,000 as a result of the Acquisition. As such, it is expected that the net assets of the Group will not have a material change as a result of the Acquisition. In addition, given that the business prospect of the Target Group has synergy with the business of the Company, and it has extensive experience in designing and manufacturing of smart energy solutions, it is expected that the Acquisition will make a positive contribution to the financial performance and prospects of the Enlarged Group in the future.

Further details of the financial effect of the Acquisition together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information of the Enlarged Group are set out, for illustration only, in Appendix IV to this circular.

INFORMATION ON THE PARTIES TO THE SALE AND PURCHASE AGREEMENT

The Company

The Company is an investment holding company, the subsidiaries of the Company are principally engaged in the sales and distribution of natural gas and the provision of financial services business. The natural gas business of the Group includes natural gas energy center, natural gas point-to-point supply services, natural gas truck filling stations, natural gas transportation fleet logistics, local government and gas company natural gas peak shaving storage, national natural gas pipeline network gas transmission, natural gas trading, pipeline natural gas direct supply services and pipeline natural gas trading.

The Company is a green, low-carbon, smart and efficient comprehensive energy service provider, its new energy business engages in nine market categories including northern residential heating, building energy efficiency, ecological agriculture, energy management services, power operation services, industrial power, energy storage business, energy and carbon trading and digital intelligence integration. The Company will continue to identify suitable investments to expand its clean energy portfolio in order to optimize and accelerate the release of production capacity and enhance its comprehensive competitiveness. The Company will fully leverage its resource advantages, integrate different energy sources to build a smart low-carbon new energy model to pursue green and ecological development, commence from the northern heating and industrial energy conservation, and strive to become a leading comprehensive smart energy service provider in China.

Sunland

Sunland Limited is a company incorporated in the British Virgin Islands principally engaged in investment holding and is ultimately controlled by Mr. Chen Leixin ("**Mr. Chen**") as at the date of the Announcement. Mr. Chen is an individual engaging in the business of investment.

Old Boy

Old Boy Limited is a company incorporated in the British Virgin Islands principally engaged in investment holding and is ultimately controlled by Mr. Chen who is interested in 55% of the total issued share capital of Old Boy as at the date of the Announcement. The other shareholders are Mr. Huang Jianhui, Mr. Gao Lei and Mr. Wang Quan, holding 25%, 15% and 5% respectively of the issued share capital of Old Boy.

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

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but are all less than 100%, the Acquisition constitutes a major transaction of the Company pursuant to Chapter 14 of the Listing Rules, and is subject to the notification, announcement and Shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained by written Shareholders' approval in lieu of convening a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder; and (b) the written approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the issued share capital of the Company giving the right to attend and vote at the general meeting to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Shareholders have any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder, and therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, Dr. Kan holds 3,386,433,139 Shares (representing approximately 58.96% of the issued Shares). As the Company has obtained the Written Approval from Dr. Kan in accordance with Rule 14.44 of the Listing Rules in lieu of a resolution to be passed at a general meeting of the Company. Accordingly, no extraordinary general meeting will be convened by the Company for the purpose of approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

RECOMMENDATION

Based on the reasons set out in the section above headed "Reasons for and Benefits of the Acquisition" above, the Directors (including the independent non-executive Directors) consider the terms of the Sale and Purchase Agreement are entered into on normal commercial terms, and the transactions contemplated thereunder are in the Group's ordinary and usual course of business, fair and reasonable and in the interests of the Company and its Shareholders as a whole. If a general meeting were to be convened for the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder, the Board would recommend the Shareholders to vote in favour of the resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at such general meeting.

ADDITIONAL INFORMATION

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

By order of the Board
China HK Power Smart Energy Group Limited
Kan Che Kin, Billy Albert
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three years ended 31 March 2021, 2022 and 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 (http://chinahkpower.todayir.com):

– annual report of the Company for the year ended 31 March 2021 published on 30 July 2021 (pages 45 to 141);

– annual report of the Company for the year ended 31 March 2022 published on 27 July 2022 (pages 57 to 149);

– annual report of the Company for the year ended 31 March 2023 published on 25 July 2023 (pages 58 to 145); and

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 November 2023, being the latest practicable date for the purpose of the indebtedness statement of the Enlarged Group prior to the printing of this circular, the Enlarged Group had the following outstanding indebtedness:

	HK$'000
Bank loans – secured and guaranteed	48,486
Bank loans – secured and unguaranteed	37,695
Bank loans – unsecured and guaranteed	51,158
Bank loans – unsecured and unguaranteed	4,523
	141,862
Loans from a shareholder – unsecured and unguaranteed	548,955
Lease liabilities – unsecured and unguaranteed	10,482

The Enlarged Group's bank loans were secured by property, plant and equipment of the Enlarged Group and certain unlisted equity investments of an Enlarged Group's subsidiary and guaranteed by the Enlarged Group's subsidiaries, certain financial guarantee companies, the directors, shareholders and a related party of the Enlarged Group's subsidiaries.

Save as aforesaid, and apart from the intra-group liabilities, the Enlarged Group did not have any debt securities issued and outstanding, any authorised or otherwise created but unissued, term loans, other borrowings, indebtedness in nature of borrowings including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, debentures, mortgages, charges, recognised lease liabilities, which are either guaranteed, unguaranteed, secured, or unsecured, or other material contingent liabilities or guarantees outstanding at the close of business on 30 November 2023.

3. WORKING CAPITAL STATEMENT

The Directors, after due and careful consideration, are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's financial resources, including internally generated funds, the Enlarged Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in the annual report of the Company for the year ended 31 March 2023 and the interim report of the Company for the six months ended 30 September 2023, the Directors confirmed that there has been no material adverse change in the financial or trading position of the Group since 31 March 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Global climate change brings new business models and facilitates the adoption of clean energy, which has manifested challenges for the traditional energy industry while opening new opportunities for smart energy solutions. In the future, clean energy will provide tremendous business opportunities for energy transition and addressing climate change in terms of new business models and technologies, clean energy is leading the trend towards diversified and intelligent energy development.

Over the years, the Company has accumulated vast experience in the sales and management of the natural gas business, as well as established a favorable reputation and market position in mainland China. Seizing opportunities in the transformation of the energy structure and the development of the clean energy sector, the Company has been continuously optimizing costs and business structures, expanding its distribution channels by strategically collaborating with local partner enterprises that possess extensive business and marketing experience, with the aim of further exploring the smart application of clean energy and expanding high quality end-users.

As mentioned in the announcements of the Company dated 18 September 2023, 16 October 2023 and 20 October 2023 respectively, the Company will expand its natural gas business into organized large-scale natural gas energy-saving and will develop comprehensive energy services based on multi-energy coupling and providing users with green low-carbon and smart energy businesses in the PRC. A non-wholly owned subsidiary has been established by the Company with a local partnership enterprise, which aims to leverage the partner's marketing expertise to effectively promote and sell its distributed central heating services, to support the business development of the heating projects, in addition, the Group has entered into a long-term cooperation agreement with the key supplier of equipment and raw material to provide flexibility in meeting the equipment and service requirements of the heating projects, signifies the Company's strategic move to expand its operations into the distributed central heating sector.

Looking ahead, the Enlarged Group will focus on smart energy projects in the PRC, leverage the Target Group's excellent energy-saving technologies and its research and development ability and productivity, the Enlarged Group will develop its business in the smart energy application sector explore new business opportunities and continue to take action in order to expand its sources of revenue, enhance its profitability and create value for its shareholders.

The following is the text of a report prepared for the purpose of incorporation in this circular, received from the Target Group's reporting accountants, CL Partners CPA Limited, Certified Public Accountants, Hong Kong.

CL Partners

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION

Introduction

We report on the historical financial information of Oasetech Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-4 to II-41, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2020, 2021 and 2022 and 31 July 2023, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2022 and the seven months ended 31 July 2023 (the "Relevant Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-41 forms an integral part of this report, which has been prepared for inclusion in this circular (the "Circular") in connection with the proposed major acquisition of the entire equity interest in the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of 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 materiality 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 ("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.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION

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 and presentation 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 directors 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 Group's financial position as at 31 December 2020, 2021 and 2022 and 31 July 2023 and of the Target Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Company which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the seven months ended 31 July 2022 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Target Company are responsible for preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out on in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We concluded our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Internal Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

ACCOUNTANTS' REPORT ON 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 – 4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid or declared by the Target Company in respect of the Relevant Period.

No historical financial statements for the Target Company

No financial statements have been prepared for the Target Company since its date of incorporation.

CL Partners CPA Limited
Certified Public Accountants
Hong Kong, 16 January 2024

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

The Historical Financial Information in this report was prepared based on consolidated financial statements of Target Group for the Relevant Period. The consolidated financial statements of Target Group have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong Dollar ("HK$"), while the functional currency of the Target Group is Renminbi ("RMB"), and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Seven months ended 31 July	
		2020	2021	2022	2022	2023
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*6*	36,768	65,574	89,691	49,016	34,416
Cost of services		(18,900)	(37,323)	(57,213)	(32,512)	(22,430)
Gross profit		17,868	28,251	32,478	16,504	11,986
Other income and gains (losses), net	*7*	(300)	449	(85)	99	379
Selling expenses		(6,678)	(6,352)	(4,388)	(2,454)	(2,693)
Administrative expenses		(7,062)	(17,663)	(18,229)	(7,718)	(12,170)
Finance costs	*8*	(642)	(960)	(1,413)	(771)	(699)
Profit (loss) before taxation	*9*	3,186	3,725	8,363	5,660	(3,197)
Income tax expense	*10*	–	(42)	(896)	(352)	(216)
Profit (loss) for the year/period		3,186	3,683	7,467	5,308	(3,413)
Other comprehensive income (expense):						
Item that may be reclassified subsequently to profit or loss:						
Exchange differences arising on translation of financial statements of foreign operation		1,074	587	(1,872)	(298)	657
Total comprehensive income (expense) for the year/period		4,260	4,270	5,595	5,010	(2,756)
Profit (loss) for the year/period attributable to:						
Owners of the Target Company		3,480	3,765	7,458	5,491	(3,413)
Non-controlling interests		(294)	(82)	9	(183)	–
		3,186	3,683	7,467	5,308	(3,413)
Total comprehensive income (expense) for the year/period attributable to:						
Owners of the Target Company		4,554	4,352	5,586	5,193	(2,756)
Non-controlling interests		(294)	(82)	9	(183)	–
		4,260	4,270	5,595	5,010	(2,756)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 July
		2020	2021	2022	2023
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*14*	5,199	5,023	5,556	5,040
Intangible assets	*15*	1,077	974	1,824	1,735
Right-of-use assets	*16*	3,212	5,473	3,319	3,050
		9,488	11,470	10,699	9,825
Current assets					
Inventories	*17*	12,791	37,842	28,973	35,552
Trade receivables	*18*	16,237	27,046	23,893	16,609
Prepayments, deposits and other receivables	*19*	5,962	16,681	14,756	20,043
Bank balances and cash	*20*	1,593	3,578	10,051	3,564
		36,583	85,147	77,673	75,768
Current liabilities					
Trade and bills payables	*21*	5,485	13,343	14,426	15,003
Other payables and accruals	*22*	9,102	38,381	16,120	10,943
Bank borrowings	*23*	10,697	18,360	27,166	32,234
Lease liabilities	*24*	1,493	1,781	298	167
Tax payable		–	–	325	–
		26,777	71,865	58,335	58,347
Net current assets		9,806	13,282	19,338	17,421
Total assets less current liabilities		19,294	24,752	30,037	27,246
Non-current liabilities					
Lease liabilities	*24*	1,718	2,424	1,944	1,915
Deferred tax liabilities	*25*	–	–	170	164
		1,718	2,424	2,114	2,079
Net assets		17,576	22,328	27,923	25,167
Capital and reserves					
Share capital	*26*	10,702	11,184	11,184	11,184
Reserves		8,188	12,540	18,126	13,983
Equity attributable to owners of the Target Company		18,890	23,724	29,310	25,167
Non-controlling interests		(1,314)	(1,396)	(1,387)	–
Total equity		17,576	22,328	27,923	25,167

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Statutory reserve (note)	Exchange reserve	Retained profit	Sub-total	Non-controlling interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2020	10,364	–	–	3,774	14,138	–	14,138
Profit and total comprehensive income for the year	–	–	1,074	3,480	4,554	(294)	4,260
Acquisition of a subsidiary	–	–	–	(140)	(140)	(1,020)	(1,160)
Issuance of shares	338	–	–	–	338	–	338
At 31 December 2020	10,702	–	1,074	7,114	18,890	(1,314)	17,576
Profit and total comprehensive income for the year	–	–	587	3,765	4,352	(82)	4,270
Transfer	–	1,341	–	(1,341)	–	–	–
Issuance of shares	482	–	–	–	482	–	482
At 31 December 2021	11,184	1,341	1,661	9,538	23,724	(1,396)	22,328
Profit and total comprehensive income for the year	–	–	(1,872)	7,458	5,586	9	5,595
At 31 December 2022	11,184	1,341	(211)	16,996	29,310	(1,387)	27,923
Loss and total comprehensive expense for the period	–	–	657	(3,413)	(2,756)	–	(2,756)
Acquisition of additional interest in a subsidiary	–	–	–	(1,387)	(1,387)	1,387	–
At 31 July 2023	11,184	1,341	446	12,196	25,167	–	25,167

Note:

As stipulated by the relevant laws and regulations in the People's Republic of China ("PRC"), the PRC subsidiaries of the Target Company are required to maintain a statutory surplus reserve. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by directors of those subsidiaries annually. The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied for conversion into capital by means of capitalisation issue.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			For the seven months ended	
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit (loss) before taxation	3,186	3,725	8,363	5,660	(3,197)
Adjustments for:					
Finance cost	642	960	1,413	771	699
Bank interest income	20	13	17	7	21
Depreciation of property, plant and equipment	764	1,078	940	548	717
Depreciation of right-of-use assets	1,152	1,708	1,787	1,077	349
Amortisation of intangible assets	42	133	165	75	136
Write-down of inventories	–	89	1,195	771	708
Impairment losses (reversed of impairment losses) of trade receivables	281	696	(561)	(362)	673
Loss on disposal of property, plant and equipment	–	–	366	–	45
Operating profit before working capital changes	6,087	8,402	13,685	8,547	151
(Increase) decrease in trade receivables	(8,407)	(11,505)	3,714	10,208	6,611
Decrease (increase) in prepayments, deposits and other receivables	837	(10,719)	1,925	1,625	(5,287)
(Increase) decrease in inventories	(2,311)	(25,140)	7,674	4,048	(7,287)
Increase (decrease) in trade, bills and other payables	4,091	37,137	(21,178)	(26,744)	(4,600)
Cash generated from (used in) operations	297	(1,825)	5,820	(2,316)	(10,412)
Income tax paid					
– PRC Enterprise Income Tax Paid	–	(42)	(401)	(252)	(547)
Net cash (used in) from operating activities	297	(1,867)	5,419	(2,568)	(10,959)
Interest received	(20)	(13)	(17)	(7)	(21)
Purchase of property, plant and equipment	(1,857)	(752)	(2,239)	(2,313)	(114)
Purchase of intangible assets	(1,050)	–	(1,113)	(1,150)	–
Net cash inflow from acquisition of a subsidiary	(1,160)	–	–	–	–
Net cash used in investing activities	(4,087)	(765)	(3,369)	(3,470)	(135)
Interest paid	(642)	(960)	(1,413)	(771)	(699)
Proceeds from borrowings	4,500	17,393	27,866	11,880	13,675
Repayment of borrowings	–	(10,156)	(17,417)	(5,492)	(9,528)
Payment of lease liabilities	(1,239)	(2,957)	(1,602)	(1,464)	(1,410)
Proceeds of issue of shares	338	482	–	–	–
Net cash from financing activities	2,957	3,802	7,434	4,153	2,038
Net (decrease) increase in cash and cash equivalents	(833)	1,170	9,484	(1,885)	(9,056)
Cash and cash equivalents at beginning of year/period	1,109	1,593	3,578	3,578	10,051
Effect of foreign exchange rate changes	1,317	815	(3,011)	535	2,569
Cash and cash equivalents at end of year/period	1,593	3,578	10,051	2,228	3,564

NOTES TO HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company was incorporated in the British Virgin Islands (the "BVI") with limited liability on 19 October 2023. The Target Company is principally engaged in investment holding. Its shareholders are Sunland Limited and Old Boy Limited. The address of the registered office of Target Company is Vistra Corporate Service Centre, Wickhams Cay II, Road Town, Tortola, VG 1110, British Virgin Islands.

The Target Company acts as an investment holding company. The activities of the subsidiaries are set out as below.

The Historical Financial Information is presented in Hong Kong dollars ("HK$"), while the functional currency of the Target Group is Renminbi ("RMB").

2. COMPANY REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the conventions applicable for Company reorganisation.

Pursuant to the reorganisation under the Sale and Purchase Agreement, the Target Group would undergo a reorganisation so that the entire equity interest of 翺途能源科技(無錫)有限公司 (the "Project Company") will be wholly owned by the Target Company indirectly. Upon completion of the reorganisation, the Target Group will comprise, among others, the Target Company as the investment holding company and the Project Company specialised in the development and production of innovative energy technology products and integrated solutions, with a focus on cooling and heating sectors, in the People's Republic of China ("PRC").

At the end of the Relevant Period, the Target Company has the following subsidiaries which are wholly owned or non-wholly owned by the Target Company during the Relevant Period and as at date of this report:

Name of subsidiaries	Place of incorporation	Fully paid registered capital	Percentage of equity interest attributable to the Target Company				Principal activity
			31 December			31 July	
			2020	2021	2022	2023	
Oasetech Limited	Hong Kong	HK$100,000	N/A	N/A	N/A	N/A	Investment holding (Note 1)
翺途能源科技(無錫)有限公司	PRC	RMB10,000,000	100%	100%	100%	100%	Development and production of innovative energy technology products and integrated solutions
翺途貿易(上海)有限公司	PRC	RMB200,000	51%	51%	51%	100%	Dormant (Note 2)
翺途系统集成(苏州)有限公司	PRC	RMB200,000	100%	100%	100%	N/A	Dormant (Note 3)

Note 1: Oasetech Limited was incorporated on 2 November 2023.

Note 2: During the seven months ended 31 July 2023, the Project Company further acquired 49% equity interests of 翺途貿易(上海)有限公司 with no consideration.

Note 3: During the seven months ended 31 July 2023, 翺途系统集成(苏州)有限公司 was deregistered in accordance with relevant laws and regulation in the PRC.

Note 4: The management considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Target Group, therefore, no summarised financial information of these non-wholly owned subsidiaries is presented separately.

The statutory financial statements of 翺途能源科技(無錫)有限公司 for the years ended 31 December 2020, 2021, and 2022 were audited by 宜興達華會計師事務所有限公司.

No statutory financial statements of the Target Company, 翺途貿易(上海)有限公司 and 翺途系统集成(苏州)有限公司 have been prepared since its date of incorporation.

3. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Period, the Target Group has consistently applied the accounting policies which conform with HKFRSs, Hong Kong Accounting Standards ("HKASs") and the related interpretations issued by the HKICPA that are effective for the accounting period beginning on 1 January 2020 throughout the Relevant Period.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 31 July 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to HKAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

[1] Effective for annual periods beginning on or after 1 April 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] Effective for annual periods beginning on or after a date to be determined

The directors of the Target Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the Target Group's financial performance and positions and/or on the disclosures to the Target Group's financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies 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 and by the Hong Kong Companies Ordinance.

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 Group 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 the 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* ("HKFRS 2"), leasing transactions that are accounted for in accordance with HKFRS 16, 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.

The principal accounting policies adopted are set out below.

Revenue from contracts with customers

The Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;
- the Target Group's performance creates or enhances an asset that the customer controls as the Target Group performs; or
- the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer.

Sales of energy technology products

For contracts entered into with customers on sales of products, the relevant products specified in the contracts have no alternative use to the Target Group. Taking into consideration of the relevant legal precedent, the Target Group concluded that it does not have an enforceable right to payment prior to transfer of the right to use of products to customers. Revenue from sales of products is therefore recognised at a point in time when the products are transferred to customers, being at the point that the customer obtains the right to use of products and the Target Group has present right to payment and collection of the consideration is probable.

Foreign currencies

In preparing the financial statements of each individual Company entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred as the Target Group does not have any qualifying asset.

Government grants

Government grants are not recognized until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Employment benefits

Retirement benefits costs

Payments to the defined contribution retirement benefit schemes 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 HKFRS 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) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the 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 recognized 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 utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and investments in associates, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Target Group recognises the right-of use assets and the related lease liabilities, the Target Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

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, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for rental, use in provision of services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets 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, plant 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, plant 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.

Leasing

Definition of a lease

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

The Target Group as lessee

The Target Group assesses whether a contract is or contains a lease at inception of the contract. The Target Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Target Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Target Group measures lease liability at the present value of the lease payments that are not paid at the date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Target Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivables;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Target Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Target Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Target Group presents right-of-use assets as a separate line in the consolidated statement of financial position.

The Target Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment on property, plant and equipment, intangible assets and right-of-use assets

At the end of the reporting period, the Target Group reviews the carrying amounts of its property, plant and equipment, intangible assets and right-of-use assets to determine whether there is any indication that these 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, plant and equipment, intangible assets and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Group 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 Group 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 Target 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 Target 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 Target Group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Target Group must incur to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity 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. 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 except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the Relevant Period. 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, where 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 collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms 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 FVTPL.

(i) 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 the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Target Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, 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 the reporting date.

Assessment are done based on the Target Group'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 the reporting date as well as the forecast of future conditions.

The Target Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Target Group 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 Group 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 Group compares the risk of a default occurring on the financial instrument as at the 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 Group 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:

- 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, the credit default swap prices 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; or

- 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 Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a 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.

(i) Definition of default

For internal credit risk management, the Target Group 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 Group, in full (without taking into account any collaterals held by the Target Group).

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

(ii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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.

(iii) Write-off policy

The Target Group 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 Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(iv) 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 and 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. The Target Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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

Lifetime ECL for trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For provision matrix assessment, the Target Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each Company continue to share similar credit risk characteristics.

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 Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Group 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 entity.

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

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements 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 Company entities are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at amortized cost

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

5. SIGNIFICANT ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 4, the directors of the Target Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

(a) Estimated useful lives and impairment of property, plant and equipment, right-of-use assets and intangible assets

The management determines the estimated useful lives and the depreciation or amortisation method in determining the related depreciation or amortisation charges for its property, plant and equipment, right-of-use assets and intangible assets. This estimate is based on the management's experience of the actual useful lives of property, plant and equipment, right-of-use assets and intangible assets of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment, right-of-use assets and intangible assets may not be recoverable. Management will increase the depreciation or amortisation charge where useful lives are expected to be shorter than expected, or will write off or write down obsolete assets that have been abandoned or impaired. When the actual useful lives or recoverable amounts of property, plant and equipment, right-of-use assets and intangible assets differ from the original estimates, adjustment will be made and recognized in the period in which such event takes place.

As at 31 December 2020, 2021, 2022 and 31 July 2023, the carrying amounts of property, plant and equipment are approximately HK$5,199,000, HK$5,023,000, HK$5,556,000 and HK$5,040,000 respectively. No impairment indicators were identified during the Relevant Period. Details of movement are disclosed in Note 14.

As at 31 December 2020, 2021, 2022 and 31 July 2023, the carrying amounts of intangible assets are approximately HK$1,077,000, HK$974,000, HK$1,824,000 and HK$1,735,000 respectively. No impairment indicators were identified during the Relevant Period. Details of movement are disclosed in Note 15.

As at 31 December 2020, 2021, 2022 and 31 July 2023, the carrying amounts of right-of-use assets are approximately HK$3,212,000 HK$5,473,000, HK$3,319,000 and HK$3,050,000, respectively. No impairment indicators were identified during the Relevant Period. Details of movement are disclosed in Note 16.

(b) Estimated allowance for inventories

The directors of the Company review an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The directors of the Company estimate the net realisable value for such raw materials, work-in-progress and finished goods based primarily on the latest invoice prices and current market conditions. The directors of the Company also carry out an inventory review on a product-by-product basis at the end of each reporting period and make allowance for obsolete items. As at 31 December 2020, 2021, 2022 and 31 July 2023, the carrying amount of inventories is approximately HK$12,791,000, HK$37,482,000, HK$28,973,000 and HK$35,552,000 respectively, net of allowance for inventories of approximately nil, HK$90,000, HK$1,248,000 and HK$2,018,000 respectively. During the years ended 31 December 2020, 2021 and 2022 and seven month ended 31 July 2022 and 2023, the Target Group recognised an net allowance and reversal of allowance for inventories of approximately nil, HK$89,000, HK$1,195,000, HK$771,000 and HK$708,000 respectively.

(c) Estimated loss allowance on trade receivables

The loss allowance for trade receivables are based on assumptions about ECL. The Target Group uses judgement in making these assumptions and selecting the inputs to the loss allowance calculation, bases on the number of days that an individual receivable is outstanding as well as the Target Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment loss charge to the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2020, 2021, 2022 and 31 July 2023, the carrying amount of trade receivables is approximately HK$16,237,000, HK$27,046,000, HK$23,893,000 and HK$16,609,000 respectively, net of loss allowance of approximately HK$414,000, HK$1,133,000, HK$501,000, HK$1,214,000 respectively.

6. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represented the amounts received and receivable from the sales of energy technology products in the PRC during the Relevant Period.

(i) Disaggregation of revenue from contracts with customers

In the following table, revenue is disaggregated by major products and services and timing of revenue recognition. The Target Group has only one reportable operating segment, and the disaggregated geographic information of revenue has been set out below.

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sales of energy technology products	36,768	65,574	89,691	49,016	34,416
Timing of revenue recognition					
At point in time	36,768	65,574	89,691	49,016	34,416

(ii) Performance obligation for contracts with customers

Sales of energy technology products

For contracts entered into with customers on sales of products, the relevant products specified in the contracts have no alternative use to the Target Group. Taking into consideration of the relevant legal precedent, the Target Group concluded that it does not have an enforceable right to payment prior to transfer of the right to use of products to customers. Revenue from sales of products is therefore recognised at a point in time when the products are transferred to customers, being at the point that the customer obtains the right to use of products and the Target Group has present right to payment and collection of the consideration is probable.

Segment information

For management purposes, the Target Group has only one reportable operating segment which is the sales of energy technology products. Since this is the only reportable operating segment of the Target Group, no further operating segment analysis thereof is presented.

As there is no discrete information in respect of segment assets and liabilities and other information available for the assessment of performance and allocation of resources for different reportable segment and thus, no analysis of segment assets and liabilities is presented.

Geographical information

No geographical segment information is presented as the Target Group's revenue are all derived from the PRC based on the location of customers, the Target Group's assets are all located in the PRC by physical location of assets.

Information about major customers

Revenue from customers of the Relevant Period contributing over 10% of the total revenue of the Target Group is as follows:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Customer A	3,786	N/A*	N/A*	N/A*	N/A*
Customer B	–	15,243	33,629	20,259	N/A*
Customer C	–	–	N/A*	N/A*	5,504
Customer D	–	–	–	–	6,834

All revenue generated from the major customers shown above relate to the sales of energy technology products.

* The corresponding revenue did not contribute over 10% of the total revenue of the Target Group.

7. OTHER INCOME AND GAINS (LOSSES), NET

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest income	20	13	17	7	21
Sales of scrap products	2	3	10	–	–
Subsidies	12	453	67	–	331
Other	(334)	30	(179)	92	27
	(300)	499	(85)	99	379

8. FINANCE COSTS

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank charges	487	758	1,249	656	633
Interest expense from lease liabilities	155	202	164	115	66
	642	960	1,413	771	699

9. PROFIT (LOSS) BEFORE TAXATION

	Year ended 31 December			Seven months ended 31 July	
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit (loss) before taxation has been arrived at after charging/(crediting):					
Directors' emoluments *(note 11)*	–	–	686	405	547
Other staff costs	6,787	12,733	14,217	8,686	7,803
Retirement benefit schemes contributions to other staff	768	2,801	4,047	2,438	2,073
Total staff costs	7,555	15,534	18,950	11,529	10,423
Auditor's remuneration	–	5	11	–	31
Amortisation of intangible assets	42	133	165	75	136
Depreciation of property, plant and equipment	764	1,078	940	548	717
Depreciation of right-of-use assets	1,152	1,708	1,787	1,077	349
Write-down of inventories	–	89	1,195	771	708
Impairment losses (reversal of impairment losses) of trade receivable, net	281	696	(561)	(362)	673
Short term lease payment	–	–	18	–	496

Note:

Included in "Administrative expense" represented research and development expenses for the years ended 31 December 2020, 2021 and 2022 and seven months ended 31 July 2022 and 2023 are approximately HK$2,467,000, HK$3,131,000, HK$2,807,000, HK$31,000 and HK$2,853,000 respectively.

10. INCOME TAX EXPENSE

	Year ended 31 December			Seven months ended 31 July	
	2020	2021	2022	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current tax – PRC Enterprise Income Tax ("EIT")	–	42	726	352	226
Deferred tax	–	–	170	–	(10)
	–	42	896	352	216

PRC EIT

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The applicable tax rate of the Target Group's subsidiary, 翺途能源科技(無錫)有限公司 for the years ended 31 December 2020, 2021 and 2022 and seven months ended 31 July 2022 and 2023 was 15%.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2018 onwards, enterprises engage in research and development activities are entitled to claim 175% of the research and development expenses incurred in a year as tax deductible expenses in determining the taxable income for that year ("Super Deduction"). Project Company has claimed such Super Deduction in ascertaining its tax assessable profits for the years ended 31 December 2020, 2021 and 2022 and seven months ended 31 July 2022 and 2023.

The income tax expense for the Relevant Period can be reconciled to the profit (loss) before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit (loss) before taxation	3,186	3,725	8,363	5,660	(3,197)
Tax at EIT rate of 25%	797	931	2,091	1,415	(799)
Tax effect of income not taxable for tax purpose	(550)	(493)	(765)	(1,023)	(100)
Tax effect of expenses not deductible for tax purpose	732	812	1,178	719	1,922
Tax effect of tax concession	(547)	(443)	(634)	(752)	(310)
Tax effect of Super Deduction	(432)	(765)	(974)	(7)	(497)
Income tax expense for the year/period	–	42	896	352	216

11. DIRECTOR'S, CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Director's emoluments

The sole director of the Target Company was appointed on 19 October 2023.

During the Relevant Period, no emoluments were paid by the Target Group to the director of the Target Company as an inducement to join or upon joining the Target Group or as compensation for loss of office. None of director has waived or agreed to waive any emoluments during the Relevant Period.

No consideration was provided to third parties for making available directors' services.

There were no loans, quasi-loans and other dealings entered into by the Target Group in favour of the director.

No significant transactions, arrangements and contracts in relation to the Target Group's business to which the Target Group was a party and in which a director of the Target Group had a material interest, whether directly or indirectly, subsisted at the end of the year/periods or at any time during the year/periods.

(b) Employees' emoluments

The five highest paid individuals of the Target Group, who are neither a director or chief executive of the Target Company, for the Relevant Period are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Salaries and other benefits and allowance	391	762	1,057	645	562
Performance related bonus	369	1,389	1,280	617	1,065
Retirement benefit schemes contribution	236	467	511	293	288
	996	2,618	2,848	1,555	1,915

The performance related bonus are determined with reference to the operating results and individual performance during the Relevant Period.

The number of the five highest paid employees who are not the directors nor the chief executive of the Target Company whose emoluments fell within the following bands are as follows:

	Number of individuals				
	Year ended 31 December			Seven months ended 31 July	
	2020	**2021**	**2022**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Nil to HK$1,000,000	5	5	5	5	5

During the Relevant Period, no emoluments were paid by the Target Company to the directors and the five highest paid individuals, as an inducement to join or upon joining the Target Company or as compensation for loss in office. In addition, no director waived or agreed to waive any emoluments during the Relevant Period.

12. DIVIDENDS

No dividend was declared or paid by the entities now comprising the Target Group in respect of the Relevant Period.

13. EARNINGS (LOSS) PER SHARE

No earnings (loss) per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the Reorganisation of the Target Group set out in Note 2.

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST				
At 1 January 2020	3,348	539	211	4,098
Additions	1,304	273	280	1,857
Exchange realignment	296	52	30	378
At 31 December 2020	4,948	864	521	6,333
Additions	125	129	498	752
Exchange realignment	150	28	23	201
At 31 December 2021	5,223	1,021	1,042	7,286
Additions	1,343	101	795	2,239
Disposal	–	–	(569)	(569)
Exchange realignment	(427)	(78)	(84)	(589)
At 31 December 2022	6,139	1,044	1,184	8,367
Additions	–	114	–	114
Disposal	–	(6)	(212)	(218)
Exchange realignment	173	33	25	231
At 31 July 2023	6,312	1,185	997	8,494
ACCUMULATED DEPRECIATION				
At 1 January 2020	215	48	45	308
Provided for the year	542	158	64	764
Exchange realignment	45	11	6	62
At 31 December 2020	802	217	115	1,134
Provided for the year	710	209	159	1,078
Exchange realignment	35	10	6	51
At 31 December 2021	1,547	436	280	2,263
Provided for the year	565	166	209	940
Disposal	–	–	(203)	(203)
Exchange realignment	(131)	(37)	(21)	(189)
At 31 December 2022	1,981	565	265	2,811
Provided for the period	471	118	128	717
Disposal	–	(6)	(167)	(173)
Exchange realignment	73	20	6	99
At 31 July 2023	2,525	697	232	3,454
CARRYING VALUE				
At 31 December 2020	4,146	647	406	5,199
At 31 December 2021	3,676	585	762	5,023
At 31 December 2022	4,158	479	919	5,556
At 31 July 2023	3,787	488	765	5,040

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum.

Plant and machinery	5 – 10 years
Office equipment	5 years
Motor vehicles	5 years

15. INTANGIBLE ASSETS

	Software	**Patent**	**Trademark**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 January 2020	–	–	–	–
Additions	131	331	588	1,050
Exchange realignment	9	22	40	71
At 31 December 2020	140	353	628	1,121
Exchange realignment	6	11	18	35
At 31 December 2021	146	364	646	1,156
Additions	–	1,080	33	1,113
Exchange realignment	(12)	(55)	(50)	(117)
At 31 December 2022	134	1,389	629	2,152
Exchange realignment	4	39	18	61
At 31 July 2023	138	1,428	647	2,213
ACCUMULATED AMORTISATION				
At 1 January 2020	–	–	–	–
Provided for the year	5	17	20	42
Exchange realignment	–	1	1	2
At 31 December 2020	5	18	21	44
Provided for the year	14	55	64	133
Exchange realignment	1	2	2	5
At 31 December 2021	20	75	87	182
Provided for the year	14	89	62	165
Exchange realignment	(2)	(8)	(9)	(19)
At 31 December 2022	32	156	140	328
Provided for the period	10	91	35	136
Exchange realignment	1	8	5	14
At 31 July 2023	43	255	180	478
CARRYING VALUE				
At 31 December 2020	135	335	607	1,077
At 31 December 2021	126	289	559	974
At 31 December 2022	102	1,233	489	1,824
At 31 July 2023	95	1,173	467	1,735

The amounts are amortised on a straight-line basis over 5 to 10 years.

16. RIGHT-OF-USE ASSETS

	Total
	HK$'000
COST	
At 1 January 2020	4,480
Addition	800
Exchange realignment	343
At 31 December 2020	5,623
Addition	3,842
Exchange realignment	225
At 31 December 2021	9,690
Written-off due to end of lease	(4,668)
Exchange realignment	(612)
At 31 December 2022	4,410
Exchange realignment	124
At 31 July 2023	4,534
ACCUMULATED DEPRECIATION	
At 1 January 2020	1,120
Charge for the year	1,152
Exchange realignment	139
At 31 December 2020	2,411
Charge for the year	1,708
Exchange realignment	98
At 31 December 2021	4,217
Charge for the year	1,787
Written-off due to end of lease	(4,668)
Exchange realignment	(245)
At 31 December 2022	1,091
Charge for the period	349
Exchange realignment	44
At 31 July 2023	1,484
CARRYING VALUE	
At 31 December 2020	3,212
At 31 December 2021	5,473
At 31 December 2022	3,319
At 31 July 2023	3,050

The above items of right-of-use assets are depreciated on a straight-line basis at the following useful lives:

Leased properties	Over the lease term

The Target Group has lease arrangements for properties. The lease terms for are generally ranged from 1 to 15 years.

17. INVENTORIES

	As at 31 December			As at 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	6,322	21,934	16,067	17,956
Work-in-progress	1,898	4,841	2,570	1,900
Finished goods	4,571	11,067	10,336	15,696
	12,791	37,842	28,973	35,552

18. TRADE RECEIVABLES

	As at 31 December			As at 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables, gross	16,651	28,179	24,394	17,823
Less: Allowance for credit losses	(414)	(1,133)	(501)	(1,214)
Trade receivables, net	16,237	27,046	23,893	16,609

The Target Group normally allows credit terms ranging from 30 days to 180 days to its trade debtors.

The following is an aging analysis of trade receivables, net of allowance for credit losses, based on the invoice date at the end of the reporting period:

	As at 31 December			As at 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	6,759	13,104	14,480	2,304
91 to 180 days	2,360	2,066	3,323	2,379
181 to 365 days	2,809	3,349	4,923	4,018
Over 365 days	4,309	8,527	1,167	7,908
	16,237	27,046	23,893	16,609

Details of impairment assessment are set out in note 30.

The Target Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience and creditworthiness of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the Relevant Period.

The Target Group recognised lifetime ECL for trade receivables, which are assessed collectively based on provision matrix as follows:

As at 31 December 2020	**Weighted average expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Within 1 year	1.6	12,128	200
1 – 2 years	4.7	4,523	214
Total		16,651	414

As at 31 December 2021	**Weighted average expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Within 1 year	1.4	18,786	267
1 – 2 years	4.7	5,828	275
2 – 3 years	16.6	3,565	591
Total		28,179	1,133

As at 31 December 2022	**Weighted average expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Within 1 year	1.2	22,993	267
1 – 2 years	5.2	496	26
2 – 3 years	16.9	839	142
Over 3 years	100	66	66
Total		24,394	501

As at 31 July 2023	**Weighted average expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	*HK$'000*	*HK$'000*
Within 1 year	1.4	8,822	121
1 – 2 years	4.7	8,128	384
2 – 3 years	16.8	197	33
Over 3 years	100	676	676
Total		17,823	1,214

The movement in the loss allowance on trade receivables is as follows:

	As at 31 December			As at 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	109	414	1,133	501
Impairment loss (reversal of impairment loss) recognised, net	281	696	(561)	673
Exchange realignment	24	23	(71)	40
At the end of the year/period	414	1,133	501	1,214

19. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayment	306	1,404	156	1,764
Prepayment to suppliers	1,584	9,381	8,189	12,398
Deposits	246	90	101	85
Amounts due from related parties *(note 28)*	2,655	3,508	2,606	1,729
Other receivables	1,171	2,298	3,704	4,067
	5,962	16,681	14,756	20,043

Details of impairment assessment are set out in note 30.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held and short term bank deposits with an original maturity of six months or less and company interest at prevailing market rate at the end of each reporting period.

Details of impairment assessment are set out in note 30.

21. TRADE AND BILLS PAYABLES

The credit period on purchases of goods is 30 to 90 days during the Relevant Period. The aging of trade and bills payables presented based on the invoice date at the end of each reporting period, is as follows:

	As at 31 December			As at 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	4,263	9,866	10,930	9,795
91 to 180 days	348	857	168	819
181 to 365 days	865	2,135	1,344	2,997
Over 365 days	9	485	1,984	1,392
	5,485	13,343	14,426	15,003

22. OTHER PAYABLES AND ACCRUAL

	As at 31 December			As at 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	4,622	6,556	4,427	3,627
Deposits received	4,252	30,459	9,690	7,186
VAT tax payables	228	1,366	2,003	130
	9,102	38,381	16,120	10,943

23. BANK BORROWINGS

	As at 31 December			As at 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings comprise the following:				
– Within 1 year	10,697	18,360	27,166	32,234
Less: Amount due within one year shown under current liabilities	(10,697)	(18,360)	(27,166)	(32,234)
Amount due after one year shown under non-current liabilities	–	–	–	–
Secured	9,508	710	–	–
Unsecured and guaranteed	1,189	17,650	27,166	32,234
	10,697	18,360	27,166	32,234
The bank borrowings comprise of:				
Fixed rate borrowings	10,697	18,360	27,166	32,234
	10,697	18,360	27,166	32,234

At 31 December 2020, 2021 and 2022 and 31 July 2023, the fixed rate bank borrowings carry interest ranging from 3.55% to 5.22% per annum.

Certain bank borrowings of the Target Group are secured by certain of the director's assets. The carrying values of the asset at 31 December 2020 and 2021 are approximately HK$10,233,000 and HK$10,539,000 respectively.

24. LEASE LIABILITIES

	As at 31 December			As at 31 July
	2020	2021	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	1,492	1,781	298	167
Within a period of more than 1 year more than 2 years	1,571	322	166	176
Within a period of more than 2 years more than 5 years	148	273	769	702
More than 5 years	–	1,829	1,009	1,037
	3,211	4,205	2,242	2,082
Less: Amount due for settlement within 12 months shown under current liabilities	(1,493)	(1,781)	(298)	(167)
	1,718	2,424	1,944	1,915

25. DEFERRED TAX LIABILITIES

	As at 31 December 2020 HK$'000	As at 31 December 2021 HK$'000	As at 31 December 2022 HK$'000	As at 31 July 2023 HK$'000
Accelerated tax depreciation	–	–	170	164

26. SHARE CAPITAL

For the purpose of presenting the share capital of the Target Group prior to the completion of the Reorganisation in the consolidated statements of financial position, the share capital presented in the consolidated statements of financial position as at 31 December 2020, 2021 and 2022 and 31 July 2023 represented the share capital of Project Company.

27. RETIREMENT BENEFITS SCHEMES

The employees of the Target Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit scheme. The only obligation of the Target Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The retirement benefit scheme contributions amounted to approximately HK$768,000, HK$2,801,000, HK$4,057,000 and HK$2,073,000 for the years ended 31 December 2020, 2021 and 2022 and seven months ended 31 July 2023, respectively. No forfeited contributions have been used to reduce the level of contributions during each of the reporting period.

28. RELATED PARTY DISCLOSURES

(i) Amounts due from related parties

	As at 31 December 2020 HK$'000	As at 31 December 2021 HK$'000	As at 31 December 2022 HK$'000	As at 31 July 2023 HK$'000
Non-trade related, unsecured, interest-free and repayable on demand – 上海翺途流體科技有限公司	2,655	3,508	2,606	1,729

In addition to the transactions and balances disclosed in the Historical Financial Information, the Target Group entered into the following transactions with related parties during the Relevant Period as follows:

Name of related party	Relationship	Nature of transactions	Year ended 31 December			Seven months ended 31 July	
			2020	2021	2022	2022	2023
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
蘇州歐埃泰科節能科技有限公司	Related party *(Note b)*	Sales of products	–	257	83	89	–
杭州瑞通機電設備有限公司	Related party *(Note b)*	Sales of products	3,386	927	1,116	1,190	–
上海翺步節能工程有限公司	Related party *(Note b)*	Sales of products	1,130	750	–	–	–
南京歐埃泰科節能科技有限公司	Related party *(Note b)*	Sales of products	3,908	3,802	3,786	1,172	1,522
吉林坤曉機電設備有限公司	Related party *(Note b)*	Sales of products	239	–	–	–	–
翺創節能工程(上海)有限公司	Related party *(Note b)*	Sales of products	465	96	–	–	–
上海翺途流體科技有限公司	Related party *(Note c)*	Sales of products	651	–	–	–	–

Notes:

(a) The above transactions were made on terms mutually agreed between both parties.

(b) Mr. Chen Leixin, the shareholder of the Target Company, has direct equity interest in the company.

(c) Mr. Huang Jianhui, the shareholder of the Target Company, has direct equity interest in the company.

(ii) Compensation of key management personnel

The compensation to key management personnel of the Target Group representing individual appointed as director of the Target Company is set out in note 11.

29. CAPITAL RISK MANAGEMENT

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

The capital structure of the Target Group consists of debt balance and equity balance. Equity balance consists of equity attributable to owners of the Target Group, comprising issued share capital, retained profits and reserves.

The directors of the Target Company review the capital structure on a regular basis. As part of this review, the directors of the Target Company consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors of the Target Company, the Target Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issues of new debt.

30. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	As at 31 December			As at 31 July
	2020	**2021**	**2022**	**2023**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*
Financial assets				
Amortised cost	21,902	36,520	40,355	26,054
Financial liabilities				
Amortised cost	25,056	68,718	55,709	58,050

b. Financial risk management objectives and policies

The Target Group's financial instruments include trade receivables, deposits and other receivables, bank balances and cash, trade and bills payables, other payables and bank borrowings. Details of these financial instruments are disclosed in the respective notes to the financial statements. 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 risk management measures are implemented on a timely and effective manner.

Market risk

Interest rate risk management

The Target Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances.

Currency risk

The Target Group's PRC subsidiaries transact in RMB, and the Target Company and other subsidiaries mainly transact in HK$.

Management considers the Target Group's exposure to foreign currency risk is not significant.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Group's counterparties default on their contractual obligations resulting in financial losses to the Target Group. The Target Group's credit risk exposures are primarily attributable to trade and bills receivables, deposits and other receivables and bank balances and cash. The Target Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Target Group performed impairment assessment for financial assets under ECL model. Information about the Target Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarized as below.

In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. For trade receivables, the Target Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Target Group determines the ECL collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the director of the Target Company consider that the Target Group's credit risk is significantly reduced.

The Target Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12m ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Target Group's financial assets as well as the Target Group's maximum exposure to credit risk by credit risk rating grades.

31 December 2020	**External credit rating**	**Internal credit rating**	**12m or lifetime ECL**	**Gross carrying amount** *HK$'000*	**Loss allowance** *HK$'000*	**Net carrying amount** *HK$'000*
Trade receivables	N/A	*(Note)*	Lifetime ECL (simplified approach)	16,651	(414)	16,237
Deposits and other receivables	N/A	Performing	12m ECL	1,417	–	1,417
Amounts due from related parties (included in other receivables)	N/A	Performing	12m ECL	2,655	–	2,655

31 December 2021	**External credit rating**	**Internal credit rating**	**12m or lifetime ECL**	**Gross carrying amount** *HK$'000*	**Loss allowance** *HK$'000*	**Net carrying amount** *HK$'000*
Trade receivables	N/A	*(Note)*	Lifetime ECL (simplified approach)	28,179	(1,133)	27,046
Deposits and other receivables	N/A	Performing	12m ECL	2,307	–	2,307
Amounts due from related parties (included in other receivables)	N/A	Performing	12m ECL	3,508	–	3,508

31 December 2022	**External credit rating**	**Internal credit rating**	**12m or lifetime ECL**	**Gross carrying amount** *HK$'000*	**Loss allowance** *HK$'000*	**Net carrying amount** *HK$'000*
Trade receivables	N/A	*(Note)*	Lifetime ECL (simplified approach)	24,394	(501)	23,893
Deposits and other receivables	N/A	Performing	12m ECL	3,805	–	3,805
Amounts due from related parties (included in other receivables)	N/A	Performing	12m ECL	2,606	–	2,606

31 July 2023	**External credit rating**	**Internal credit rating**	**12m or lifetime ECL**	**Gross carrying amount** *HK$'000*	**Loss allowance** *HK$'000*	**Net carrying amount** *HK$'000*
Trade receivables	N/A	*(Note)*	Lifetime ECL (simplified approach)	17,823	(1,214)	16,609
Deposits and other receivables	N/A	Performing	12m ECL	4,152	–	4,152
Amounts due from related parties (included in other receivables)	N/A	Performing	12m ECL	1,729	–	1,729

Note: For trade receivables, the Target Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Target Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 18 include their further details on the loss allowance for these assets.

Trade receivables

Before accepting any new customer, the Target Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the management considers that the Target Group's credit risk is significantly reduced. In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for determination of credit limits and credit approvals.

In addition, the Target Group performs impairment assessment under ECL model on trade receivables with credit-impaired individually and collectively using provision matrix for those remaining trade receivables based on shared credit risk characteristics by reference to the aging of outstanding balances.

Impairment of approximately HK$281,000, HK$696,000 and HK$673,000 respectively are recognised during the years ended 31 December 2020, 2021 and the seven months ended 31 July 2023, respectively. Reversal of impairment of approximately HK$561,000 is recognised during the year ended 31 December 2022.

Other receivables and deposits

For other receivables and deposits, the management makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information.

The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Target Group provided impairment based on 12m ECL. Based on the average loss rates, the 12m ECL on other receivables and deposits is considered to be insignificant and therefore no loss allowance was recognised.

Bank balances

Credit risk on bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Target Group assessed 12m ECL bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant and therefore no loss allowance was recognised.

Liquidity risk

In the management of liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management believes that the Target Group will have sufficient working capital for its future operational requirement.

Liquidity and interest risk analyses

Non-derivative financial liabilities

The following table details the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity risk tables

	Weighted average effective interest rate	On demand or within 1 year	Total undiscounted cash flows	Carrying amounts
	%	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2020				
Non-derivative financial liabilities				
Trade and bills payables	N/A	5,485	5,485	5,485
Other payables	N/A	8,874	8,874	8,874
Bank borrowings	5.03	10,739	10,739	10,697
		25,098	25,098	25,056
31 December 2021				
Non-derivative financial liabilities				
Trade and bills payables	N/A	13,343	13,343	13,343
Other payables	N/A	37,015	37,015	37,015
Bank borrowings	5.05	18,857	18,857	18,360
		69,215	69,215	68,718
31 December 2022				
Non-derivative financial liabilities				
Trade and bills payables	N/A	14,426	14,426	14,426
Other payables	N/A	14,117	14,117	14,117
Bank borrowings	4.19	27,841	27,841	27,166
		56,384	56,384	55,709
31 July 2023				
Non-derivative financial liabilities				
Trade and bills payables	N/A	15,003	15,003	15,003
Other payables	N/A	10,813	10,813	10,813
Bank borrowings	3.83	32,704	32,704	32,234
		58,520	58,520	58,050

c. Fair value of financial assets and financial liabilities

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 management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values because the effect of discounting is immaterial.

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Group's consolidated statements of cash flows as cash flows from financing activities.

For the year ended 31 December 2020

			Non-cash changes			
	1 January 2020	**Financing cash flows**	**New Lease arrangements**	**Finance cost incurred** *(Note 8)*	**Exchange realignment**	**31 December 2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest payables included in other payables	–	(487)	–	487	–	–
Bank borrowings *(Note 23)*	5,572	4,500	–	–	625	10,697
Lease liabilities *(Note 24)*	3,445	(1,394)	800	155	205	3,211
	9,017	2,619	800	642	830	13,908

For the year ended 31 December 2021

			Non-cash changes			
	1 January 2021	**Financing cash flows**	**New Lease arrangements**	**Finance cost incurred** *(Note 8)*	**Exchange realignment**	**31 December 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest payables included in other payables	–	(758)	–	758	–	–
Bank borrowings *(Note 23)*	10,697	7,237	–	–	426	18,360
Lease liabilities *(Note 24)*	3,211	(3,159)	3,842	202	109	4,205
	13,908	3,320	3,842	960	535	22,565

For the year ended 31 December 2022

			Non-cash changes		
	1 January 2022	**Financing cash flows**	**Finance cost incurred** *(Note 8)*	**Exchange realignment**	**31 December 2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest payables included in other payables	–	(1,249)	1,249	–	–
Bank borrowings *(Note 23)*	18,360	10,449	–	(1,643)	27,166
Lease liabilities *(Note 24)*	4,205	(1,766)	164	(361)	2,242
	22,565	7,434	1,413	(2,004)	29,408

For the seven months ended 31 July 2022

			Non-cash changes		
	1 January 2022	**Financing cash flows**	**Finance cost incurred** *(Note 8)*	**Exchange realignment**	**31 July 2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest payables included in other payables	–	(656)	656	–	–
Bank borrowings *(Note 23)*	18,360	6,388	–	(844)	23,904
Lease liabilities *(Note 24)*	4,205	(1,579)	115	(374)	2,367
	22,565	4,153	771	(1,218)	26,271

For the seven months ended 31 July 2023

			Non-cash changes		
	1 January 2023	**Financing cash flows**	**Finance cost incurred** *(Note 8)*	**Exchange realignment**	**31 July 2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest payables included in other payables	–	(633)	633	–	–
Bank borrowings *(Note 23)*	27,166	4,147	–	921	32,234
Lease liabilities *(Note 24)*	2,242	(1,476)	66	1,250	2,082
	29,408	2,038	699	2,171	34,316

32. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company or any the companies non comprising the Target Group have been prepared in respect of any period subsequent to 31 July 2023.

Set out below is the management discussion and analysis on the Target Group for the years ended 31 December 2020, 31 December 2021 and 31 December 2022 and the seven months ended 31 July 2023 (the "Relevant Periods"), which is prepared based on the financial information of the Target Group as set out in Appendix II to this circular.

BUSINESS OVERVIEW

The Target Company is a company newly incorporated in the British Virgin Islands with limited liability and wholly-owned by the Sellers. The Target Company will be the holding company of the Project Company upon completion of the Reorganisation. After the Reorganisation, the Target Group's business will primarily be conducted by the Project Company.

Incorporated in 2017, Project Company specialized in the development and production of innovative energy technology products and integrated solutions which involved energy control, hydraulic regulation and energy efficiency optimization.

FINANCIAL REVIEW

Financial Information on the Target Group

Set out below is a summary of the financial information of the Target Group extracted from the accountants' reports of the Target Group as set out in Appendix II of this circular:

	For the year ended 31 December 2020	For the year ended 31 December 2021	For the year ended 31 December 2022	For the seven months ended 31 July 2023
	HKD$'000	*HKD$'000*	*HKD$'000*	*HKD$'000*
Revenue	36,768	65,574	89,691	34,416
Profit/(loss) before tax	3,186	3,725	8,363	(3,197)
Profit/(loss) after tax	3,186	3,683	7,467	(3,413)

The audited net assets of the Target Group as at 31 July 2023 were approximately HK$25.2 million.

For further financial information of the Target Group, please refer to the accountants' report of the Target Group as set out in Appendix II of this circular.

Revenue

The Target Group recorded revenue for the years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2023 of approximately HK$36.8 million, HK$65.6 million, HK$89.7 million and HK$34.4 million respectively. The Target Group's revenue is mainly represented by the sales of energy technology products.

The overall increase in revenue over the three years ended 31 December 2022 was due to the policies pursued by the PRC government to promote reforms and innovation in the energy sector, which has created a positive business environment and growth opportunities for the Target Group.

The increase in the Target Group's revenue from the year ended 31 December 2020 to the year ended 31 December 2021 was mainly due to the sales of products for projects developed and accumulated prior to the break out of the COVID-19 pandemic. The pandemic has caused the lack of confidence for investors and enterprises in investments resulting in the pause or cancellation of projects during the second half of 2021 and 2022, which also led to a decrease in the consummation of projects at end 2022 and in the first half of 2023. This has caused the slower increase in the Target Group's revenue for the years ended 31 December 2021 and 2022 and the decrease in revenue relatively for the seven months ended 31 July 2023.

However, the pandemic has in turn accelerated the transformation of the industrial sector, the world started to pay more attention to sustainable development, environmental protection and reduction of carbon emissions, which has promoted the demand for energy efficiency improvement. Since the end of 2022, the Target Group has seen significant growth in potential projects under discussion, which is expected to lay a good foundation for the formation of revenue in later stage.

Other income and gains/(losses)

The other income/(loss) of the Target Group for the three years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2023 were approximately HK$(300,000), HK$499,000, HK$(85,000) and HK$379,000 respectively. The other income primarily consisted of government subsidies. The increase in other income from 2020 to 2021 was due to an increase in government subsidies, the decrease in subsidies from 2021 to 2022 resulted in a decrease in other income.

Administrative expenses

The administrative expenses of the Target Group for the three years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2023 were approximately HK$7.1 million, HK$17.7 million, HK$18.2 million and HK$12.2 million, respectively.

To drive and complement the increase in revenue, the Target Group increased its spending in research and development for innovation during the Relevant Periods. The research and development expenses for the seven months ended 31 July 2023 of approximately HK$2.9 million was already more than that for the year ended 31 December 2022 of approximately HK$2.8 million.

To promote sales, the Target Group established branches or offices in Beijing, Suzhou, Hangzhou, Shandong and Jilin in 2021. The rent of these branch offices and the salaries of staff are included in the administrative expense. This accounted for the significant increase in administrative expense for the years ended 2021 and 2022.

The company has transformed from a single product and equipment sales model to a large-scale engineering project-based model developing specific solutions directly to customers. Therefore, for the seven months ended 31 July 2023, the Target Group invested significantly in market development and promotion, which resulted in a substantial increase in travel and marketing expenses for market development in administrative expenses.

Income tax credit/(expense)

The income tax credit/(expense) of the Target Group for the period from the three years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2023 were approximately HK$0, HK$42,000, HK$896,000, and HK$216,000, respectively. Income tax expenses increased mainly as a result of the increase in Target Group's net profit over the three years ended 31 December 2020, 2021 and 2022.

Profit/(loss) after tax for the year/period

The Target Group recorded a profit/(loss) after tax of approximately HK$3.2 million, HK$3.7 million, HK$7.5 million and HK$(3.4) million for the three years ended 31 December 2020, 2021 and 2022 and the seven months ended 31 July 2023, respectively. The increase in the profits for the three years ended 31 December 2020, 2021 and 2022 was mainly as a result of the increase in sales revenue. The loss for the seven months ended 31 July 2023 was due to the increase in the research and development expense and the COVID-19 pandemic in the PRC in the early 2023.

It is the intention of the Target Group to continue to develop innovative energy technology products after Completion.

Capital structure, liquidity and financial resources

The Target Group had bank balances and cash of approximately HK$1.6 million, HK$3.6 million, HK$10.1 million and HK$3.6 million as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 July 2023, respectively, which were denominated in renminbi.

As at 31 December 2020, 31 December 2021, 31 December 2022 and 31 July 2023, the bank borrowings of the Target Group amounted to approximately HK$10.7 million, HK$18.4 million, HK$27.2 million and HK$32.2 million respectively, denominated in renminbi, all bank borrowings of the Target Group bore fixed interest rates ranging from 3.55% to 5.22% per annum, certain bank borrowings of the Target Group are secured by certain of the director's assets.

During the Relevant Periods, the Target Group and the Target Company financed its operations through a combination of operating cash flow and interest-bearing borrowings.

As at 31 December 2020, 31 December 2021, 31 December 2022 and 31 July 2023, the Target Group recorded net assets of approximately HK$17.6 million, HK$22.3 million, HK$27.9 million and HK$25.2 million, respectively.

Funding and treasury policy

The Target Group primarily finances its operations from bank borrowings. The Target Group adopts a prudent funding and treasury policy towards its overall business operation with an aim to minimize financial risks, by ensuring sufficiency of liquidity and fulfilment of financing requirements within acceptable financing costs. As of the Latest Practicable Date, the Target Group did not use financial instruments for hedging purposes.

Foreign Currency Management

The Target Group operates in the PRC and all of its transactions are denominated in HKD. The Target Group currently does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Target Group will monitor its foreign currency exposure closely and will consider hedging foreign currency exposure if necessary.

Employees and Remuneration Policy

The Target Group had staffs of 75, 106, 115 and 118 respectively as at 31 December 2020, 31 December 2021, 31 December 2022 and 31 July 2023. Total staff costs amounted to approximately HK$7.6 million, HK$15.5 million, HK$19.0 million and HK$10.4 million for the years ended 31 December 2020, 31 December 2021 and 31 December 2022 and the seven months ended 31 July 2023, respectively.

The Target Group will implement policies to ensure that employees will be recruited, employed, promoted and remunerated based on their qualifications, experiences, skills, performances and contributions. In addition, remuneration will be determined with reference to, among others, the market trend. The Target Group will also implement various programs for staff training and development.

Significant investments held

The Target Group does not have any significant investments nor any material acquisitions or disposal of subsidiaries and associated companies during the Relevant Periods.

Charges on assets

As at 31 December 2020, 31 December 2021, 31 December 2022 and 31 July 2023, there were no charges over any asset of the Target Group.

Gearing ratio

As at 31 December 2020, 31 December 2021, 31 December 2022 and 31 July 2023, the gearing ratio of the Target Group (calculated based on the bank borrowings as a percentage of total equity) was approximately 60.9%, 82.2%, 97.3% and 128.1%, respectively.

Material acquisitions, disposals and associations

During the Relevant Periods, the Target Group and the Target Company did not conduct any material acquisition or disposal of subsidiaries, associates and joint ventures.

Contingent liabilities

During the Relevant Periods, the Target Group and the Target Company had no material contingent liabilities and contingencies arising from the ordinary course of the Target Group's business.

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group ("**Unaudited Pro Forma Financial Information**") set out below has been prepared by the Directors in accordance with rule 4.29 of the Listing Rules and is solely for the purpose to illustrate the effect of the acquisition of the entire equity interest in Oasetech Limited (the "**Target Company**") and its subsidiaries (collectively refer as the "**Target Group**") (the "**Acquisition**") on the Group's assets and liabilities as at 30 September 2023 as if the Acquisition had been completed on 30 September 2023.

The Unaudited Pro Forma Financial Information is prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2023 which has been extracted from the published interim report of the Company for the six month ended 30 September 2023 and (ii) the audited consolidated statement of financial position of the Target Group as at 31 July 2023 which have been extracted from the accountants' report thereon set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition and (ii) factually supportable as if the Acquisition had been completed on 30 September 2023.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 September 2023 or at any future date.

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

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 31 JULY 2023

	The Group as at 30 September 2023	The Target Group as at 31 July 2023	Pro forma adjustments		The Enlarged Group as at 30 September 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)			(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
Non-Current Assets					
Property, plant and equipment	428,913	5,040			433,953
Other intangible assets	3,741	1,735			5,476
Goodwill	–	–	74,833		74,833
Right-of-use assets	107,895	3,050			110,945
Interests in joint ventures	73,385	–			73,385
Deposits for acquisition of plant and equipment	105,522	–			105,522
Deposits for acquisition of land use rights	43,550	–			43,550
Other assets	280,400	–			280,400
Statutory deposits	200	–			200
	1,043,606	9,825			1,128,264
Current Assets					
Inventories	8,259	35,552			43,811
LNG finance lease receivables	9,802	–			9,802
Loan and reimbursement receivables	112,787	–			112,787
Accounts and other receivables, prepayments and deposits	84,734	36,652			121,386
Financial assets at fair value through profit or loss	3	–			3
Cash and cash equivalents	53,726	3,564			57,290
	269,311	75,768			345,079
Current Liabilities					
Bills and accounts payables	105,960	15,003			120,963
Other payables and accruals	478,020	10,943		650	489,613
Interest-bearing bank borrowings	82,934	32,234			115,168
Lease liabilities	2,435	167			2,602
Tax payable	4,921	–			4,921
	674,270	58,347			733,267
Net current (liabilities)/assets	(404,959)	17,421			(388,188)
Total assets less current liabilities	638,647	27,246			740,076

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 30 SEPTEMBER 2023

	The Group as at 30 September 2023	The Target Company as at 31 July 2023	Pro forma adjustments		The Enlarged Group as at 30 September 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)			(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
Non-Current Liabilities					
Loans from a shareholder	511,474	–			511,474
Interest-bearing bank borrowings	23,291	–			23,291
Lease liabilities	6,428	1,915			8,343
Deferred tax liabilities	1,663	164			1,827
	542,856	2,079			544,935
Net Assets	95,791	25,167			195,141

Notes:

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

2. The amounts are extracted from the consolidated statement of financial position of the Target Group (as defined in the circular) as at 31 July 2023 as set out in Appendix II to this circular.

3. This adjustment represents the accounting for the Acquisition using the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 (Revised) Business Combinations ("**HKFRS 3 (Revised)**") issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the fair values of the identifiable tangible assets and liabilities of the Target Company as at 31 July 2023 approximated to their carrying amounts as at 31 July 2023.

   Pursuant to the Agreement, the Initial Consideration payable by the Company for the Acquisition is HK$100,000,000 and the Company will settle the Initial Consideration by the allotment and issue of an aggregate of 232,558,140 Initial Consideration Shares at the price of HK$0.43 per Initial Consideration Share to the Sellers credited as fully paid.

   In accordance with HKFRS 3 (Revised), the consideration transferred in a business combination is measured at fair value at the acquisition date and therefore, the Post-closing Consideration Shares shall be measured at the fair value as at the completion date of the Acquisition. Accordingly, for the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the final consideration of the Acquisition is HK$100,000,000.

   In accordance with HKFRS 3 (Revised), the excess of consideration over the fair value of identifiable net assets shall be accounted for as a goodwill. The adjustment represents goodwill arising from the Acquisition which is calculated as follows:

	HK$'000
Consideration	100,000
Less: Net assets of the Target Group as at 31 July 2023	(25,167)
Goodwill	74,833

   The fair value of net assets acquired is subject to changes upon completion of the Acquisition because in accordance with HKFRS 3 (Revised), the fair value of all identifiable assets and liabilities of the Target Company shall be assessed on the date of completion and the consideration of the Acquisition shall be subject to changes based on the share price of the Company. Accordingly, the goodwill may be materially different from the calculation above.

   In the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the directors of the Company had performed an impairment assessment of the goodwill in accordance with Hong Kong Accounting Standard 36 Impairment of Assets ("**HKAS 36**"). Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss will be recognised. An impairment loss recognised for goodwill will not be reversed in a subsequent period. Based on the latest information available to us when preparing the Unaudited Pro Forma Financial Information, the directors of the Company are not aware of any goodwill impairment indicator.

   The directors of the Company confirmed that they will adopt consistent approach to assess impairment of goodwill in subsequent reporting periods in accordance with the requirements of HKAS 36 and will disclose in the Group's annual report the basis and assumptions adopted by the directors of the Company in the impairment assessment in accordance with the disclosure requirements in HKAS 36.

4. This adjustment represents the payment of estimated transaction costs of approximately HK$650,000 that are directly attributable to the Acquisition would have been charged to profit or loss.

5. Apart from the above, no other adjustment has been made to reflect any trading results or transactions of the Group and the Target Group entered into subsequent to 30 September 2023.

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

The following is the text of the independent reporting accountants' assurance report received from CL Partners CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of Company, in respect of the unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

CL Partners

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

The Board of Directors of China HK Power Smart Energy Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China HK Power Smart Energy Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 September 2023 and related notes as set out on pages IV-1 to IV-4 of the circular in connection with the proposed acquisition of entire equity interest in Oasetech Limited (hereinafter referred to as the "**Target Company**") by the Group (the "**Acquisition**"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in notes 1 to 5.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Acquisition on the Group's financial position as 30 September 2023 as if the Acquisition had taken place at 30 September 2023. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's unaudited condensed consolidated financial statements as at 30 September 2023, on which an interim report has been published.

Directors' Responsibility for the Unaudited pro forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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" ("**AG7**") 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 requirement 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 and Reviews of Financial Statements, or Other Assurance and Related Services Engagements" issue 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 29(7) of Chapter 4 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 of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 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 a circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 30 September 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 unaudited 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' judgement, having regard to the reporting accountants' understanding of the nature of the Enlarged 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 29(1) of Chapter 4 of the Listing Rules.

CL Partners CPA Limited
Certified Public Accountants

Hong Kong, 16 January 2024

The following is the text of a letter and valuation certificates prepared for the purpose of incorporation in this circular received from Access Partner Consultancy & Appraisals Limited, an independent valuer, in connection with its valuation as at 31 July 2023 of the Target Group.

ACCESS PARTNER
CONSULTANCY & APPRAISALS

Access Partner Consultancy & Appraisals Limited

21 December 2023

The Board of Directors
China HK Power Smart Energy Group Limited
Unit A 8th Floor, St. John's Building
33 Garden Road
Central
Hong Kong

Project Ref: 599\BV\PPA\2023

Dear Sirs/Madams,

INSTRUCTIONS

In accordance with the instructions from China HK Power Smart Energy Group Limited (the "**Company**") to provide value opinion on the market value of Oasetech Limited (the "**Target Group**") and its subsidiaries upon completion of Reorganisation (the "**Target Group**"). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the market value of the equity interests of the Target Group as at 31 July 2023 (the "**Valuation Date**").

We must point out that this valuation report does not constitute a technical report and does not express opinions on technologies employed by the Target Group, legal title on any of its operating assets (whether tangible or intangible), environmental issues and contractual rights involved in its business operations.

1. PURPOSE OF VALUATION

It is our understanding that this report is prepared solely for use as one of the references for the transaction involving the equity interests in the Target Group.

The objective of Access Partner Consultancy & Appraisals Limited is to assess the market value of the equity interests in the Target Group in order to provide the Company with an independent value opinion. The responsibility for determining the agreed consideration of any transaction or share transfer involving the Target Group rests solely with the Company or its subsidiaries. The results of our analysis should not be construed to be an investment recommendation. No one should rely on our report for any purchase price determination purpose or as a substitute for their own due diligence. It is inappropriate to use this valuation report for purposes other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment and underlying valuation assumptions.

Whilst we have exercised all due cares in reviewing the supplied information, the accuracy of the results and conclusions expressed herein are entirely reliant on the accuracy and completeness of the supplied data and information. No responsibility is assumed by us for any errors or omissions in the supplied information and us does not accept any consequential liability arising from commercial decisions or actions resulting from them.

2. BASIS OF VALUATION

Our valuation is based on market value basis defined as follows. According to the International Valuation Standards established by the International Valuation Standards Council in 2022, Market Value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing Sellers in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

3. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Group, the management of the Target Group and/or their representative(s) (collectively the "**Management**").

In the course of our valuation work, we have conducted the following processes to evaluate the reasonableness of the adopted basis and assumptions provided:

- Discussed with the Management in relation to the development, operations and other relevant information of the Target Group;
- Reviewed relevant information and other relevant data concerning and the Target Group provided to us by the Management;
- Performed market research and relevant statistical figures from public sources in relation to the valuation of the Target Group;
- Prepared a valuation model to derive the value of the Target Group; and
- Presented all relevant information on the scope of works, limitations in scope of work, sources of information, an overview of the Target Group, valuation methodology, major assumptions, limiting conditions, remarks and opinion of value in this report.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

4. LIMITATIONS IN SCOPE OF WORK

In the course of our valuation work, our scope of work for the purpose of the valuation are subject to the following limitations:

- In performing our services, we have relied on the accuracy of information provided by the Management with regards to the Target Group. The procedures and enquiries undertaken by us in preparing this report do not include any verification work, nor do they constitute an examination made in accordance with generally accepted auditing standards. As such, we do not express an opinion or offer any forms of assurance regarding the accuracy, reasonableness, completeness or reliability of these information we are based;

- Information furnished by others, upon which all or portions of this report are based, is believed to be reliable. However, we did not independently verify this information and no warranty is given as to the accuracy of such information;

- The result of our work is dependent on the condition of the Target Group (see **Section 6 – Overview of the Target Group** for details). However, because events and circumstances frequently do not occur as expected, there will usually be differences between predicted and actual results, and those differences may be material. We take no responsibility for the achievement of predicted results;

- Our analysis is limited to a desktop assessment on Target Group, which relied on information provided by the Management. We are not required to perform physical inspection, site visits and verify the legal titles of the assets held by the; and

- We have considered published market data and other public information, where appropriate, for which we are not responsible for their content and accuracy. Such information was obtained from sources such as Bloomberg and publicly available industry reports.

5. SOURCES OF INFORMATION

For the purpose of our valuation, we have been provided with the information in respect of the Target Group prepared by the Management. The valuation required the consideration of all relevant factors including, but not limited to, the following:

- Overall business descriptions, operations and development of the Target Group;

- The economic outlook in general and the specific economic environment and market elements affecting the Target Group and market; and

- Bloomberg Database and other reliable sources of market data.

6. OVERVIEW OF THE TARGET GROUP

The Target Group is a company newly incorporated in the British Virgin Islands on 19 October 2023 principally engaged in investment holding of Project Company. The Target Company will be the holding company of the Target Group upon completion of the Reorganisation. After the Reorganisation, the Target Group's business will primarily be conducted by the Project Company.

The Management has confirmed that as at the Date of Valuation, the Project Company is committed in the development and production of innovative energy technology products and integrated solutions which involved energy control, hydraulic regulation and energy efficiency optimization. It has focused on the introduction, production, research and implementation of high efficiency energy stations, regional energy centres, civilian high efficiency chiller plants and waste heat recovery and utilization systems for many years. It is also engaged in energy management contract (EMC), engineering, procurement and construction (EPC) and equipment as a service (EaaS) in the energy provision field.

7. VALUATION METHODOLOGY

There are three generally accepted approaches to estimate the market value of the Target Group, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

7.1. Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm’s length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm’s length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

7.2. Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

7.3. Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("**equity and long term debt**"). Under the Asset-Based Approach, the market value of equity of a business entity/group refers to the market values of various assets and liabilities on the statement of financial position of the business entity/group as at the measurement date, in which the market value of each asset and liability was determined by reasonable valuation approaches based on its nature.

7.4. Adopted Approach for the Valuation of the Target Group

Among the abovementioned valuation approaches, the selection of the valuation approach in valuing the Target Group is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market transactions, uniqueness of the business operations and nature of the industry the Target Group are participating, professional judgment and technical expertise.

The Income-Based Approach was not adopted because there is no financial forecast with concrete business plan could be obtained from the Management of the Target Group for valuation purpose, and the change in assumption would greatly impact the valuation result. The Asset-Based Approach was also not adopted because it could not capture the future earning potential of the Target Group and therefore it could not reflect the market value of the Target Group. We have therefore considered the adoption of the Market-Based Approach in arriving at the market value of the Target Group.

By adopting the Market-Based Approach, we have to determine the appropriate valuation multiples of comparable companies, in which we have considered price-to-sales ("**P/S**"), price-to-earnings ("**P/E**"), price-to-book ("**P/B**"), enterprise-value-to-EBIT ("**EV/EBIT**") and enterprise-value-to-EBITDA ("**EV/EBITDA**"). P/E, EV/EBIT multiples were not adopted because the Target Group was loss making. None of the short-listed comparable companies (refer to 7.5 for more details) had a P/E multiple due to all of them having negative earnings. Regarding the EV/EBIT multiple, only 2 out of the 7 short-listed companies had a ratio. EV/EBITDA multiple was not adopted as the EBITDA may not be an accurate proxy of the operating cash flow due to the add back of depreciation and amortization expenses. Regarding the EV/EBITDA multiple, only 1 out of the 7 short-listed companies had a ratio. P/B multiple was not adopted as it did not reflect the future earnings potential of the Target Group and the target company is not in an industry that is heavily asset based. Therefore, we have adopted the P/S multiple as we considered it as the most appropriate multiple in calculating the market value of the Target Group due to business nature of the Target Company and it is best used to identify the potential of the Target Company regarding the market. The median P/S multiple of comparable companies was adopted to estimate the market value of the Target Group.

7.5 Analysis of Comparable Companies and Adopted Market Multiple

In this valuation exercise, the market value of the 100% equity interest in the Target Group was developed through the application of the market approach technique known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of the 100% equity interest in the Target Group. In determining the P/S multiple, a list of comparable companies was identified. The selection criteria are listed below:

– The companies derive most, if not all, of their revenues from the same industry of Target Group, i.e., significant portions of the assets or businesses of the companies involve development and production of innovative energy technology products and integrated solutions or related business principally in China;

– The comparable companies are searchable in Bloomberg;

– The comparable companies are publicly listed in a major exchange; and

– Sufficient data, including the P/S Ratio as at the Valuation Date, on the comparable companies are available.

As sourced from Bloomberg, an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis. The details of the comparable companies are listed below:

Company Name	**Stock Code**	**% Revenue Attributed to Relevant Business Segment**	**% Revenue Attributed to Relevant Geographical Location**
Sichuan Crun Group Co Ltd	002272.CH	99%	93%
HNAC Technology Co Ltd	300490.CH	51%	90%
Jin Tong Ling Technology Group Co Ltd	300091.CH	94%	92%
Zhangjiagang Furui Special Equipment Co Ltd	300228.CH	67%	65%
CECEP Environmental Protection Co Ltd	300140.CH	98%	97%

Company Name	Stock Code	% Revenue Attributed to Relevant Business Segment	% Revenue Attributed to Relevant Geographical Location
China Smarter Energy Group Holdings Ltd	1004.HK	100%	100%
Chyy Development Group Ltd	8128.HK	92%	100%

Source: Bloomberg

- The comparable companies identified above all have greater than 50% revenue that was attributed to the relevant business segment. Due to the unique nature of the target company, 50% was used to allow for a larger sample size of companies to properly represent the nature of the company in regard to the market.

- The companies were operating mainly in China with a minimum of over 50% of their revenue being attributed from China. Due to the unique nature of the target company, 50% was used to allow for a larger sample size of companies to properly represent the nature of the company in regard to the market.

- Regarding the Target Company, none of the companies have positive earnings, as seen in the table below.

Company Name	Stock Code	Trailing 12 Month EPS
Sichuan Crun Group Co Ltd	002272.CH	-0.019
HNAC Technology Co Ltd	300490.CH	-1.041
Jin Tong Ling Technology Group Co Ltd	300091.CH	-0.283
Zhangjiagang Furui Special Equipment Co Ltd	300228.CH	-0.146
CECEP Environmental Protection Co Ltd	300140.CH	-0.082
China Smarter Energy Group Holdings Ltd	1004.HK	-0.014
Chyy Development Group Ltd	8128.HK	-0.024

Source: Bloomberg

Details of the comparable companies adopted were listed as follows:

Stock Code	Listing Location	Business Description
002272.CH	China	Sichuan Crun Group Co Ltd specializes in the manufacturing of mechanical equipment, such as special equipment, general machines, and electromechanical devices. The company's products consist of boilers and pressure vessels, lubricating hydraulic machinery and industrial pump, and electric tools.
300490.CH	China	HNAC Technology Co Ltd is a hydropower control equipment manufacturer. The company provides EPC service and overall automatic solutions to hydropower stations, substations, pump station and water treatment projects.
300091.CH	China	Jin Tong Ling Technology Group Co Ltd develops, manufactures and sells compressors, blowers, and turbines. The company produces centrifugal air compressors, centrifugal steam compressors, carbon dioxide compressors, cooling compressors, centrifugal blowers, steam turbines, and more. The company also engages in boiler sales and technical services.
300228.CH	China	Zhangjiagang Furui Special Equipment Co Ltd designs, manufactures and sells metallic pressure vessels. The company's main products include low-temperature storage and transportation equipment, heat exchangers and gas separation equipment.
300140.CH	China	CECEP Environmental Protection Co Ltd provides environmental protection engineering services. The company provides household waste incineration power generation and other services. company also operates energy saving and environmental protection equipment and electricity special equipment production.

Stock Code	Listing Location	Business Description
1004.HK	Hong Kong	China Smarter Energy Group Holdings Ltd is primarily engaged in the Investment business, fur business, mining business and solar energy business.
8128.HK	Hong Kong	CHYY Development Group Ltd manufactures renewable energy equipment. The company produces and sells heat pump products, pump wells, buried pipes, single well circulation heat exchange systems, and other products. company serves customers in China.

The P/S Multiple of the comparable companies were calculated from the current market cap as at the Valuation Date divided by the trailing 12-month Net Sales as presented below:

Bloomberg Ticker	Company Name	Current Market Cap (Mil)	Trailing 12M Net Sales	P/S Ratio
002272.CH	Sichuan Crun Group Co Ltd	2,851.1456	1,768.4526	1.612
300490.CH	HNAC Technology Co Ltd	5,856.0145	2,256.9191	2.595
300091.CH	Jin Tong Ling Technology Group Co Ltd	4,556.8425	1,292.0749	3.527
300228.CH	Zhangjiagang Furui Special Equipment Co Ltd	3,561.7653	2,225.3867	1.600
300140.CH	CECEP Environmental Protection Co Ltd	22,986.6664	5,062.6962	4.540
1004.HK	China Smarter Energy Group Holdings Ltd	240.4274	169.3696	1.420
8128.HK	Chyy Development Group Ltd	107.8106	91.8157	1.174
			Median	1.612

The P/S multiple adopted was the median of the P/S multiples of the above comparable companies as at the Date of Valuation as extracted from Bloomberg. Then we obtained the estimated market value of the Target Group as at 31 July 2023 by applying the median of P/S multiple to the annualized revenue of RMB53,112,899 of the Target Group as at the Date of Valuation. The market value of the Target Group was then estimated by adjusting with the control premium and marketability discount.

7.6. Calculation Details

The calculation details in arriving at the market value of the Target Group using the P/S multiple were illustrated as follows:

Annualized Revenue as at the Date of Valuation *(RMB)*	53,112,899
Multiplied by: Median of P/S Multiple	1.61
Market value of 100% Equity Interest of the Target Group Before Adjustments on Equity Control *(RMB)*	85,630,007
Multiplied by: Adjustment for Equity Control	(1 + 34.20%)
Market value of 100% Equity Interest of the Target Group After Adjustments on Equity Control *(RMB)*	114,915,469
Add: Net Non-Operating Assets/Liabilities *(RMB)*	(2,144,605)
Market value of 100% Equity Interest of the Target Group Before Adjustments on Marketability Discount *(RMB)*	112,770,864
Multiplied by: Adjustment for Marketability Discount	(1 – 15.70%)
Market value of 100% Equity Interest of the Target Group After Adjustments on Marketability Discount *(RMB)*	95,065,838
Market value of 100% Equity Interest of the Target Group *(RMB)* (Rounded)	**95,000,000**

Note: Total figures may not add up due to rounding.

7.7. Control Premium

As we are considering the value of the Target Group from the perspective of controlling interest, a control premium of 34.20% has been adopted in arriving at the market value of the Target Group to reflect the higher marketability of a controlling interest compared to a minority interest. We have made reference to the Mergerstat Control Premium Study (3rd Quarter 2023), which was published by FactSet Mergerstat, LLC.

7.8. Marketability Discount

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. With reference to the result of the restricted stock study published in "Stout Restricted Stock Study" by Stout Risius Ross, LLC, a discount for lack of marketability of 15.70% was adopted in arriving at the market value of Target Group as at the Date of Valuation.

8. MAJOR ASSUMPTIONS

In conducting our valuation work, certain major assumptions have to be adopted in order to sufficiently support our conclusion of value. In addition, our valuation analyses are also subject to specific representations and certain principal assumptions that Management considers necessary and appropriate for adoption in our valuation analyses (as outlined below).

- The audited financial statements of the Target Group as at 31 July 2023 can reasonably represent the financial position of Target Group as at the Date of Valuation;
- The information provided and the representations made by the Management with regard to the Target Group;
- The Target Group will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business operations and expected growth rates;
- The Target Group has obtained all necessary permits, business certificates, licenses and legal approvals to operate the business and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Target Group operates or intends to operate would be officially obtained and renewable upon expiry with de minimis expenses;
- Upon expiry of the current permits, business certificates, licenses and/or legal approvals, the Target Group are able to renew all such documents to operate the business with de minimis expenses;
- Interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing; and
- There will be no major changes in the political, legal, economic or market conditions in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Group.

In the event actual events do not accord with one or more of the above assumptions, the resulting liquidation value of the Target Group may vary substantially from the figure as concluded and set out in this report.

9. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on information provided by the Management to a considerable extent in arriving at our opinion of value. We have not verified the accuracy of the information provided and have assumed that the aforesaid information is accurate. We have not conducted any further investigations concerning whether all data have been provided to us for our assessment and we have no reason to believe that any material data have been withheld from us.

We would particularly point out that our valuation was based on the information of the Target Group provided to us.

Our conclusion of the value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation.

10. CURRENCY

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

11. OPINION OF VALUE

Based upon the investigation and analysis outlined above, our scope of work and limitations in scope of work, the assumptions adopted and the valuation method employed, it is our opinion that as of 31 July 2023, the market value of 100% shareholder's equity of the Target Group, 翔途能源科技(無錫)有限公司, is reasonably represented by an amount of **RMB95,000,000**.

12. OTHER DISCLOSURE

We hereby confirm that Access Partner Consultancy & Appraisals Limited have no pecuniary or other interests that could conflict with the proper valuation of the Target Group or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. We confirm that we have neither present nor prospective interests in the Company, the Group, the Target Group, the Project Company, its associate companies, subsidiaries or the values reported herein, we are an independent qualified valuer as referred to Rule 5.08 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Yours faithfully,
For and on behalf of
Access Partner Consultancy & Appraisals Limited

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. SHARE CAPITAL

The authorized and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the allotment and issue of the aggregate number of Initial Consideration Shares (assuming there is no other change in the issued share capital of the Company from the Latest Practicable Date to the date of Completion) will be as follows:

(i) As at the Latest Practicable Date

	Number of shares	Amount *HK$*
Authorized share capital:		
Ordinary shares of HK$0.02 each	2,000,000,000	40,000,000
Issued and fully paid:		
Ordinary shares of HK$0.02 each	5,743,797,090	114,876,000

(ii) Immediately after the allotment and issue of the aggregate number of Initial Consideration Shares (assuming there will be no adjustment pursuant to the Profit Guarantee and no change to the total number of Shares in issue from the Latest Practicable Date to the date of issue of the Consideration Shares in full other than the issue of the Consideration Shares by the Company)

	Number of shares	Amount *HK$*
Authorized share capital:		
Ordinary shares of HK$0.02 each	2,000,000,000	40,000,000
Issued and fully paid:		
Ordinary shares of HK$0.02 each as at the Latest Practicable Date	5,743,797,090	114,876,000
Aggregate number of Initial Consideration Shares to be issued	232,558,140	4,651,000
	5,976,355,230	119,527,000

All the issued Shares rank pari passu with each other in all respects including the rights in respect of capital, dividends and voting. The Initial Consideration Shares, credited as fully paid and free from all encumbrances if and when issued, shall rank pari passu in all respects with the other Shares in issue or to be issued by the Company on or prior to the date of allotment of the Initial Consideration Shares.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Initial Consideration Shares. Subject to the granting of listing of, and permission to deal in, the Initial Consideration Shares on the Stock Exchange, as well as compliance with the stock admission requirements of HKSCC, the Initial Consideration Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Initial Consideration Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

3. DISCLOSURE OF INTEREST BY DIRECTORS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are (i) required 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 he/she has taken or deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Directors' Interests and Short Positions in Shares, Underlying Shares and Debenture of the Company

Name of Directors	Capacity nature of interests	Long position/ Short position	Number of Ordinary shares held	Approximate percentage of shareholding *(Note 1)*
Dr. Kan	Beneficial owner and interests in controlled corporation	Long position	3,331,567,139 *(Note 2)*	58.00%
		Short position	1,111,000,000 *(Note 3)*	19.34%
Mr. Li Kai Yien	Beneficial owner	Long position	200,000	0.01%
Mr. Simon Murray	Beneficial owner	Long position	5,000,000 *(Note 4)*	0.09%
Dr. Lam, Lee G.	Beneficial owner	Long position	10,000,000 *(Note 4)*	0.17%
Mr. Deng Yaobo	Beneficial owner	Short position	700,000,000 *(Note 4)*	12.19%

Notes:

1. Based on 5,743,797,090 shares of the Company in issue as at the Latest Practicable Date.

2. 5,000,000 shares among these 3,384,167,139 shares are held by Ground Up Profits Limited ("**Ground Up**"). Dr. Kan beneficially owns the entire issued share capital of Ground Up, which in turn beneficially owns 58.92% of the shareholding in the Company. Dr. Kan is the Chairman, an executive Director and chief executive officer of the Company, Dr. Kan is also a director of Ground Up.

3. The short position represents private share options granted by Dr. Kan to Mr. Simon Murray ("**Mr. Murray**"), Dr. Lam Lee G. ("**Dr. Lam**"), Mr. Deng Yaobo ("**Mr. Deng**") and eight senior management of the Company.

4. These shares represent the private option shares, which were beneficially owned by Dr. Kan, were granted by Dr. Kan to Mr. Murray, Dr. Lam and Mr. Deng, upon the exercise in full of the rights pursuant to option deed agreements entered between Dr. Kan and each of Mr. Murray, Dr. Lam and Mr. Deng, Mr. Murray and Dr. Lam are non-executive Directors of the Company, Mr. Deng is an executive Director and chief executive officer of the Company.

Directors' Interests in Shares in Associated Corporation of the Company

Name of Director	Name of company in which interests were held	Nature of interests	Number of Shares held	Approximate percentage of interests in the capital of the associated corporation
Dr. Kan	Key Fit Group Limited	Beneficial owner	69,982,878	9.99%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors or chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement entered into by any member of the Enlarged Group which was significant in relation to the business of the Enlarged Group as a whole.

5. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest, direct or indirect, in any assets which had been, since 31 March 2023, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any other member(s) of the Enlarged Group (excluding contracts expiring or which may be terminated by the Company within a year without payment of any compensation (other than statutory compensation)).

7. INTERESTS IN OTHER COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective close associates were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

8. LITIGATION

On 11 May 2023, the authorised representative of the Company had been duly served a statutory demand dated 28 April 2023 (the "**Statutory Demand**") from the solicitors acting on behalf of a creditor pursuant to Section 178(1)(a) or Section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of Laws of Hong Kong), demanding the Company to pay the amount of HK$60,317,749 (the "**Debt**"), being a judgment debt against the Company's indirect wholly-owned subsidiary, which the Company acts as a guarantor pursuant to a judgment issued by the Higher People's Court of Tianjin Municipality (the "**Court**").

The Group has settled the dispute with the creditor amicably by reached a settlement agreement on 14 August 2023, a written judgement issued by the Court dated 10 August 2023 on the withdrawal and discontinued the underlining case has been received by the Company. Pursuant to the terms and conditions of the settlement agreement, the Group shall pay the Debts to the creditor in accordance with the agreed repayment schedule. Accordingly, the Statutory Demand has ceased to have effect on the Company.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, the Enlarged Group was not engaged in any litigation or claim 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.

9. MATERIAL CONTRACTS

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

(i) On 16 October 2023, an indirect wholly-owned subsidiary of the Company entered into an investment cooperation agreement with Xian Shengsen Thermal Technology Partnership (Limited Partner)(西安盛森熱力科技合夥企業(有限公司)*)("**Partnership Enterprise**") to establish a project company in the PRC aiming to leverage the partner's marketing expertise to effectively promote and sell the distributed central heating services, Pursuant to which the Group will own 70% equity interest of the registered share capital of Shaanxi Hezhi Zexi New Energy Technology Company Limited(陝西合智澤熙新能源科技有限公司*)("**Shaanxi HZ**"), while the Partnership Enterprise will own 30% equity interest. After completion of the transfer, the share capital of Shaanxi HZ will increase to RMB100 million and the Group will provide the entire capital amount and the Partnership Enterprise is not obligated to repay the capital investment to the Group. Details of which are set out in the announcement of the Company dated 16 October 2023.

(ii) the Sale and Purchase Agreement.

10. EXPERT AND CONSENT

The following is the qualification of the professional adviser who has given its opinion or recommendation which is contained in this circular.

Name	Qualification
CL Partners CPA Limited	Certified Public Accountants
Access Partner Consultancy & Appraisals Limited	Independent professional valuer

As at the Latest Practicable Date, each of CL Partners CPA Limited and Access Partner Consultancy & Appraisals Limited 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.

As at the Latest Practicable Date, each of CL Partners CPA Limited and Access Partner Consultancy & Appraisals Limited did not have any direct or indirect interest in any assets which have been acquired, disposed of or leased to any member of the Group, or was proposed to be acquired, disposed of or leased to any member of the Group since 31 March 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up.

Each of CL Partners CPA Limited and Access Partner Consultancy & Appraisals Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report and reference to its name in the form and context in which they appear.

11. GENERAL

The registered office of the Company is at Cricket Square Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal place of business in Hong Kong of the Company is situated at 8th Floor, St. John's Building 33 Garden Road Central, Hong Kong.

The company secretary of the Company is Ms. Chan Mui who is an associate member of the Hong Kong Chartered Governance Institute and a fellow of the Association of Chartered Certified Accountants, she currently serves as the chief financial officer and company secretary of the Company.

The branch share registrar and transfer office of the Company is Tricor Standard Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

12. DOCUMENTS ON DISPLAY

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

(a) the letter from the Board, the text of which is set out in this circular;

(b) the annual reports of the Company for the three years ended 31 March 2023, 31 March 2022 and 31 March 2021 and the interim report of the Company for the six months ended 30 September 2023;

(c) the accountant's report from CL Partners CPA Limited on the financial information of the Target Group for each of the three years ended 31 December 2022, 31 December 2021 and 31 December 2020 and the seven months period ended 31 July 2023, the text of which is set out in Appendix II to this circular;

(d) the report from CL Partners CPA Limited on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(e) the valuation report prepared by Access Partner Consultancy & Appraisals Limited in relation to Target Group, the text of which is set out in Appendix V to this circular;

(f) the written consents as referred to in the section headed "Expert and consent" in this Appendix;

(g) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix; and

(h) this circular.