

# ALTUS CAPITAL LIMITED

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7 May 2024

*To the Independent Board Committee and the Independent Shareholders*

**CGN New Energy Holdings Co., Ltd**

15/F Harbour Centre  
25 Harbour Road  
Wanchai, Hong Kong

Dear Sirs,

**MAJOR TRANSACTIONS AND  
CONTINUING CONNECTED TRANSACTIONS  
TERMINATION OF THE ORIGINAL FINANCIAL SERVICES  
FRAMEWORK AGREEMENTS AND  
ENTERING INTO OF THE NEW FINANCIAL SERVICES  
FRAMEWORK AGREEMENTS**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions as contemplated under the New Financial Services Framework Agreements and the Annual Caps. Details of the continuing connected transactions as contemplated under the New Financial Services Framework Agreements and the Annual Caps and the terms of the New Financial Services Framework Agreements are set out in the “Letter from the Board” contained in the circular of the Company dated 7 May 2024 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 8 November 2023 and the circular of the Company dated 24 November 2023 in respect of the renewal of the 2014 Financial Services Framework Agreements and related annual caps. As disclosed in the poll results announcement of the Company dated 28 December 2023, the resolutions on the approval of the renewal of the 2014 Financial Services Framework Agreements and related annual caps were not passed at the special general meeting of the Company held on 28 December 2023.

### **The New Financial Services Framework Agreements**

Reference is made to the announcement of the Company dated 18 January 2024, in relation to, among others, the Original Financial Services Framework Agreements, entered into between the Company and the Service Providers, respectively, pursuant to which the Service Providers agreed to provide deposit and other financial services to the Group for a term commencing from 18 January 2024 and ending on 31 December 2024.

Reference is made to the announcement of the Company dated 25 April 2024, in order to revise the existing annual caps for the maximum daily outstanding balance of deposits to be placed by the Group with the Service Providers under the Original Financial Services Framework Agreements, together with the relevant interest to be received and service fees (if any) under the Original Financial Services Framework Agreements, the Company entered into the New Financial Services Framework Agreements with the Service Providers on 25 April 2024.

Subject to the fulfilment of the conditions set out in the paragraphs headed “Duration of the New Financial Services Framework Agreements” in the “Letter from the Board” of the Circular, the New Financial Services Framework Agreements shall be effective from the Effective Date and expire on 31 December 2026. Meanwhile, the Original Financial Services Framework Agreements shall be terminated from the Effective Date, and all matters in relation to the provision of deposit and other financial services to the Group by the Service Providers shall be executed in accordance with the terms and conditions stipulated in the New Financial Services Framework Agreements.

Pursuant to the New Financial Services Framework Agreements, the Group may from time to time deposit money with CGNPC Huasheng and CGN Finance in their respective jurisdictions. The Group may also from time to time request CGNPC Huasheng to provide loan services, including the provision of credit lines, supply of loans, revolving facilities, non-financing letters of guarantees, bill acceptance, bill discount, financial consultancy (providing debt financing only without giving advice) and other loan-related services, as well as intra-group or external settlement, transmittance or foreign exchange services. The Group may also from time to time request CGN Finance to provide loan services, including the provision of credit lines, supply of loans (including entrusted loan), revolving facilities, non-financing letters of guarantees, bill acceptance, bill discount, financial consultancy (providing debt financing only without giving advice) and other loan-related services as well as intra-group or external settlement, transmittance or foreign exchange services. In the event that the Group will require any loan or other financial services from CGNPC Huasheng or CGN Finance, under the New Financial Services Framework Agreements, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules accordingly.

### **Listing Rules implications**

As at the Latest Practicable Date, CGN is a controlling shareholder indirectly holding approximately 72.33% of the issued share capital of the Company. CGNPC Huasheng and CGN Finance are subsidiaries of CGN, and therefore are connected persons of the Company under the Listing Rules.

Since one or more of the applicable percentage ratios in relation to the Annual Caps exceed 25% but is less than 100%, the transactions contemplated under the New Financial Services Framework Agreements constitute major transactions and continuing connected transactions of the Company, which are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules, respectively.

### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. WANG Minhao, Mr. YANG Xiaosheng and Mr. LEUNG Chi Ching Frederick, has been established to advise the Independent Shareholders as to (i) whether the terms of the New Financial Services Framework Agreements are fair and reasonable; (ii) whether the Annual Caps are fair and reasonable; (iii) whether the transactions contemplated under the New Financial Services Framework Agreements will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and are in the interests of the Company and its Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the ordinary resolutions to be proposed at the Special General Meeting, taking into account the recommendation of the Independent Financial Adviser.

### **INDEPENDENT FINANCIAL ADVISER**

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give recommendations to the Independent Board Committee and the Independent Shareholders (i) whether the terms of the New Financial Services Framework Agreements are fair and reasonable; (ii) whether the Annual Caps are fair and reasonable; (iii) whether the transactions contemplated under the New Financial Services Framework Agreements will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and are in the interests of the Company and its Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the ordinary resolutions to be proposed at the Special General Meeting.

We had acted as the independent financial adviser for the Company with regard to (i) its connected transaction in relation to the variation of terms of the Rudong Entrusted Construction Management Contract, details of which are set out in the circular of the Company dated 24 November 2023; and (ii) its continuing connected transactions for the renewal of the Original Financial Services Framework Agreements, details of which are set out in the circular of the Company dated 24 November 2023.

Save for the aforesaid transactions, we have not acted as independent financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the continuing connected transactions as contemplated under the New Financial Services Framework Agreements and the Annual Caps is at market level and not conditional upon successful passing of the resolutions to be proposed at the Special General Meeting, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).

#### **BASIS OF OUR OPINION**

In formulating our opinion, we have reviewed, amongst others, (i) the New Financial Services Framework Agreements; (ii) the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”); and (iii) other information contained or referred to in the Circular.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular are accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading.

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

### **I. The New Financial Services Framework Agreements**

#### ***1. Background information of the Group, the CGN Group and parties involved in the New Financial Services Framework Agreements***

##### *1.1. The Group*

The Group is a diversified independent power producer in terms of fuel type and geography, with a portfolio of gas-fired, coal-fired, oil-fired, wind, solar, hydro, cogen, fuel cell power and biomass projects in the PRC and Korea.

##### *1.2. The CGN Group*

CGN is a state-owned enterprise established in the PRC and a controlling shareholder of the Company. The CGN Group is principally engaged in the generation and sale of power, construction, operation and management of nuclear, clean and renewable power projects.

##### *1.3. CGNPC Huasheng*

CGNPC Huasheng was incorporated in Hong Kong in January 2010 by the CGN Group for providing financial related services to members of the CGN Group outside the PRC including Hong Kong. CGNPC Huasheng is a licensed money lender in Hong Kong but not a licensed deposit-taking company or an authorised institution under the Banking Ordinance (Cap. 155 of the laws of Hong Kong) in Hong Kong.

##### *1.4. CGN Finance*

CGN Finance was established in the PRC in July 1997 by the CGN Group for providing financial related services to members of the CGN Group in the PRC. CGN Finance is a non-banking financial institution subject to the regulations of the PBOC and China Banking Regulatory Commission in the PRC.

## ***2. Reasons for the entering into of the New Financial Services Framework Agreements***

The arrangement contemplated under the New Financial Services Framework Agreements aims to optimise the efficient use of cash resources among members of the Group and the CGN Group. The role of CGNPC Huasheng and CGN Finance is similar to a cash pooling centre which enables surplus funds from subsidiary companies within the Group and the CGN Group to be pooled together for deployment to cover the funding needs among members of the CGN Group (including the Group).

In addition, CGNPC Huasheng and CGN Finance have gained a thorough understanding on the operations and development of the Group over the past nine years during which they provided the same deposit services to the Group. We understand from the Management that CGNPC Huasheng and CGN Finance have a better and more efficient communication with the Group as compared to other commercial banks and independent financial institutions for serving the financial needs of the Group.

Given that (i) the New Financial Services Framework Agreements clearly defines the operational framework with regards to the provision of financial services by CGNPC Huasheng and CGN Finance to the Group; (ii) such arrangements as contemplated under the New Financial Services Framework Agreements provide an alternative channel and flexibility for the Group to manage its cash resources in addition to other independent commercial banks and financial institutions; (iii) CGNPC Huasheng and CGN Finance have established strong relationships with the Group and CGN Group through years of cooperation which enables expedient and efficient services to the Group as compared to other independent commercial banks and financial institutions; (iv) the main objectives of CGNPC Huasheng and CGN Finance are to provide financial and treasury services to member units of the CGN Group (including the Group) and they can better understand the needs of the Group as compared to other independent commercial banks and financial institutions; and (v) the Group will require financial services to conduct its daily operations irrespective of whether the service providers are independent commercial banks and financial institutions or connected parties such as CGNPC Huasheng and CGN Finance; and (vi) based on total amount of deposits that the Group has placed with CGNPC Huasheng and CGN Finance for the four months ended 30 April 2024, the Company anticipates that the amount of the existing annual caps under the Original Financial Services Framework Agreements for the period commencing from 18 January 2024 and ending 31 December 2024 will not be sufficient to meet the demand of the Group, we consider that the entering into of the New Financial Services Framework Agreements is fair and reasonable, is in the interests of the Company and Shareholders as a whole and in the ordinary and usual course of business of the Company.

### ***3. Principal terms of the New Financial Services Framework Agreements***

When assessing the fairness and reasonableness of the terms of the New Financial Services Framework Agreements, we have considered the principal terms of the New Financial Services Framework Agreements summarised below. Please refer to the paragraphs headed “The New Financial Services (CGNPC Huasheng) Framework Agreement” and “The New Financial Services (CGN Finance) Framework Agreement” in the “Letter from the Board” set out in the Circular for further details.

#### ***3.1 Interest rate***

Pursuant to the New Financial Services (CGNPC Huasheng) Framework Agreement and the New Financial Services (CGN Finance) Framework Agreement, the Group may from time to time deposit money with CGNPC Huasheng and CGN Finance at an interest rate not less than the highest interest rate for the same type of deposit as may be offered in the respective jurisdictions by (i) major independent third party commercial banks to the Group; and (ii) CGNPC Huasheng and CGN Finance to other subsidiaries, associates or affiliated companies of CGN, respectively.

We have obtained and reviewed (i) 12 sample monthly statements of the Group’s depository accounts with CGNPC Huasheng and the relevant interest rate comparison documents during the three years ended 31 December 2023; and (ii) 12 deposit slips from CGN Finance and the relevant interest rate comparison documents during the three years ended 31 December 2023. We noted that the deposit interest rates offered by CGNPC Huasheng and CGN Finance to the Group are similar to or not less favourable than those offered by other commercial banks in the same period for the same types of deposits.

As such, we believe the abovementioned term relating to the interest rates offered by CGNPC Huasheng and CGN Finance to the Group under the deposit services as contemplated under the New Financial Services Framework Agreements is on normal commercial terms, fair and reasonable, no less favourable than those offered by independent third party financial institutions and is in the interests of the Company and its Shareholders as a whole.

### *3.2 Right to early withdraw*

We noted from the New Financial Services Framework Agreements that the Group may early withdraw its fixed deposits in CGNPC Huasheng and CGN Finance, together with any interest accrued and other receivables, before the deposit maturity after a reasonable written notice is given to CGNPC Huasheng and CGN Finance.

In the event of default of the New Financial Services Framework Agreements, the non-defaulting party is entitled to terminate the New Financial Services Framework Agreement by written notice.

### *3.3 Right to utilise the deposit service at the Group's discretion*

The New Financial Services Framework Agreements do not prevent the Group from utilising the depository services provided by third party financial institutions or commercial banks. The Group has absolute discretion as to whether, to utilise the depository services provided by CGNPC Huasheng and CGN Finance. Since Company has the flexibility to decide whether to utilise the deposit services of CGNPC Huasheng or CGN Finance, we consider that this term is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### *3.4 Termination of the New Financial Services Framework Agreements*

The Company, CGNPC Huasheng and CGN Finance (as the case may be) have the right to terminate the respective New Financial Services Framework Agreements (as the case may be) by mutual agreement in writing among the parties with one month's advance notice.

Given that this is mutually applied to the Company and each of CGNPC Huasheng and CGN Finance, we are of the view that such term is fair and reasonable and in the interests of the Company and the Shareholders as a whole.



### 3.5 Section summary

Given that (i) the Group will be offered with deposit rate no less favourable than those offered by independent commercial banks and financial institutions; (ii) the Group has the flexibility in withdrawing its deposits with CGNPC Huasheng and CGN Finance as long as a reasonable written notice is given; (iii) the Group has no obligation or responsibility in utilising the financial services (including the deposit services) provided by CGNPC Huasheng and CGN Finance; (iv) the Group has its sole discretion to use services from any commercial bank or financial institution other than that provided by CGNPC Huasheng and CGN Finance; and (v) the New Financial Services Framework Agreements can be terminated on mutual agreement among the parties, we consider the terms mentioned above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## 4. Annual caps for the New Financial Services Framework Agreements

### 4.1. Annual Caps

The estimated respective annual caps for the maximum daily outstanding balance of deposits to be placed by the Group with CGNPC Huasheng and CGN Finance under the New Financial Services Framework Agreements, together with the relevant interest to be received, for the period from the Effective Date to 31 December 2024 and two years ending 31 December 2026 are as follows:

	For the period from the Effective Date to 31 December 2024 (US\$ million)	For the year ending 31 December 2025 (US\$ million)	For the year ending 31 December 2026 (US\$ million)
CGNPC Huasheng	260	80	80
CGN Finance	<u>540</u>	<u>750</u>	<u>790</u>
Total	<u>800</u>	<u>830</u>	<u>870</u>

As set out in the “Letter from the Board”, the Management has taken into account (i) the historical amount of deposits the Group placed with CGNPC Huasheng and CGN Finance as well as other independent commercial banks; (ii) the Group’s expected available free cash flow; and (iii) the latest actual cash balance of the Group as at 31 December 2023 when arriving at the Annual Caps.

#### 4.2. Analysis of the Annual Caps

In assessing the reasonableness of the Annual Caps, we have reviewed the relevant basis and assumptions prepared by the Company taking into account the Group's historical cash deposits placed with CGNPC Huasheng and CGN Finance as well as other independent commercial banks. Set out below is the maximum utilisation rates of the historical annual caps of the Company in relation to the deposits placed by the Group with CGNPC Huasheng and CGN Finance (including their respective interest received) for the three years ended 31 December 2023.

	For the year ended 31 December		
	2021 (US\$ million)	2022 (US\$ million)	2023 (US\$ million)
Annual cap	610	640	680
Highest monthly deposits balances placed with CGNPC Huasheng and CGN Finance	559	526	528
Maximum utilisation rates	92%	82%	78%

In addition, the existing respective annual caps for the maximum daily outstanding balance of deposits to be placed by the Group with the Service Providers under the Original Financial Services Framework Agreements, together with the relevant interest to be received and service fees (if any), for the period commencing from 18 January 2024 and ending 31 December 2024 are US\$53 million in total. The maximum daily outstanding balance of deposits placed by the Group with the Service Providers (including their respective interest received and service fees, if any), for the period from the effective date of the Original Financial Services Framework Agreements (i.e. 18 January 2024) to 30 April 2024 in relation to the similar financial services arrangements entered into by the Service Providers, and the transactions contemplated under the New Financial Services Framework Agreements were US\$47 million in total. It is noted that based on total amount of deposits that the Group has placed with CGNPC Huasheng and CGN Finance for the four months ended 30 April 2024, the Company anticipates that the amount of the existing annual caps under the Original Financial Services Framework Agreements will not be sufficient to meet the demand of the Group.

In estimating the annual cap needed for the deposit services from CGNPC Huasheng and CGN Finance, the Management took into account and we have reviewed (i) 2023 Annual Report relating to the business prospect of the Group and noted that the Management will continue its focus on enhancing the operating capacity of the Group; (ii) the bank balances and cash of the Group as at 31 December 2023 as stated in the 2023 Annual Report; (iii) the budget monthly cash and cash equivalents position of the Group for the period ending March 2025 prepared by the Management; and (iv) the projected interest income to be generated from the deposits under the New Financial Services Framework Agreements based on the aforesaid budget.

Having considered (i) the high utilisation rates of historical annual caps in respect of the deposits placed by the Group with CGNPC Huasheng and CGN Finance; (ii) the strong tendency of the Group in placing deposits with CGNPC Huasheng and CGN Finance rather than other commercial banks during the three years ended 31 December 2023; and (iii) the estimated cash inflow from the Group's business operations to determine the projected cash position of the Group and the interest income to be generated from the New Financial Services Framework Agreements, we are of the view that the Annual Caps are determined on a fair and reasonable basis.

#### **5. Internal control measures**

As stated in the "Letter from the Board" of the Circular, the following monitoring and internal controls measures are in place to safeguard the interests of the Group and to ensure transactions contemplated under the New Financial Services Framework Agreements are in the interests of the Company and the Shareholders as a whole.

- (i) The finance department of the Company will obtain rates and terms offered by CGNPC Huasheng or CGN Finance (as the case may be) and at least two other independent financial institutions in Hong Kong or in the PRC respectively for deposit of similar type for comparison before the Company or any of its subsidiaries enters into any fixed deposit services with CGNPC Huasheng or CGN Finance;
- (ii) approval from the chief financial officer of the relevant member of the Group is needed for the Group to enter into the fixed deposit services arrangement with CGNPC Huasheng or CGN Finance;
- (iii) the finance department of the Group will monitor the comparable market interest rates from at least two independent financial institutions to ensure that the interest rates offered by CGNPC Huasheng or CGN Finance are no less favourable to the Group;
- (iv) the relevant subsidiary of the Group which deposits money with CGNPC Huasheng or CGN Finance will submit a report to CGNPC Huasheng or CGN Finance on its funding requirements for the month by no later than the seventh business day of each month; and

- (v) the Group will evaluate and assess the financial performance and position of CGNPC Huasheng and CGN Finance on a quarterly basis.

For further details, please refer to the paragraph headed “Internal control measures for transactions under the New Financial Services Framework Agreements” in the “Letter from the Board” of the Circular.

We have reviewed the summary of quotations obtained by the Group from other independent commercial banks or financial institutions for deposit services. We further understand from the Management that, the Group has not experienced any delay from withdrawals or late payment of interest income in relation to the deposit arrangements with CGNPC Huasheng and CGN Finance under the Financial Services Framework Agreement. Based on the documents provided by the Management and the abovementioned internal control measures, we noted that the Company had adhered to the internal control measures and believed such internal control measures are adequate.

#### **RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the view that (i) the terms of the New Financial Services Framework Agreements are fair and reasonable; (ii) the Annual Caps are fair and reasonable; and (iii) the transactions contemplated under the New Financial Services Framework Agreements will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions relating to the New Financial Services Framework Agreements (including the Annual Caps) to be proposed at the Special General Meeting.

Yours faithfully  
For and on behalf of  
**Altus Capital Limited**



**Jeanny Leung**  
*Responsible Officer*



**Leo Tam**  
*Responsible Officer*

*Ms. Jeanny Leung (“**Ms. Leung**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

*Mr. Leo Tam (“**Mr. Tam**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over nine years of experience in corporate finance and advisory in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Mr. Tam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*

# ALTUS CAPITAL LIMITED

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7 May 2024

*To the Independent Board Committee and the Independent Shareholders*

**CGN New Energy Holdings Co., Ltd**

15/F Harbour Centre  
25 Harbour Road  
Wanchai, Hong Kong

Dear Sirs,

**VARIATION OF TERMS IN RELATION TO  
THE VERY SUBSTANTIAL ACQUISITION  
AND CONNECTED TRANSACTION  
VARIATION AGREEMENT IN RELATION TO THE RUDONG  
ENTRUSTED CONSTRUCTION MANAGEMENT CONTRACT**

## INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Variation Agreement (the “**Transaction**”). Details of the Transaction are set out in the “Letter from the Board” contained in the circular of the Company dated 7 May 2024 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

References are made to the announcement of the Company dated 25 November 2020 and the circular of the Company dated 8 December 2020, in relation to, among other things, the entering into of the Rudong Entrusted Construction Management Contract between CGN Nantong and China Nuclear Power Engineering as the Contractor on 25 November 2020, pursuant to which CGN Nantong has conditionally agreed to engage China Nuclear Power Engineering and China Nuclear Power Engineering has conditionally agreed to undertake the design, procurement and construction and construction management work of the Rudong Offshore 300MW Wind Farm Project. The initial total consideration under the Rudong Entrusted Construction Management Contract is approximately RMB2.1 billion (inclusive of tax).

Reference is made to the announcement of the Company dated 8 November 2023 and the circular of the Company dated 24 November 2023 in respect of the 2023 Variation Agreement. As disclosed in the poll results announcement of the Company dated 28 December 2023, the resolution on the approval of the 2023 Variation Agreement were not passed at the special general meeting of the Company held on 28 December 2023.

Reference is made to the announcement of the Company dated 25 April 2024, in view of changes in the work scope and market price necessary to complete the Rudong Offshore 300MW Wind Farm Project that leads to an increase in costs, on 25 April 2024, CGN Nantong and China Nuclear Power Engineering mutually agreed to enter into the Variation Agreement, in order to, among others, revise the total consideration under the Rudong Entrusted Construction Management Contract to approximately RMB2.4 billion (inclusive of tax).

### **Listing Rules implications**

As at the Latest Practicable Date, CGN is the controlling shareholder indirectly holding approximately 72.33% of the issued share capital of the Company. China Nuclear Power Engineering is a subsidiary of CGN and is therefore a connected person of the Company under the Listing Rules.

The entering into of the Variation Agreement constitutes a material variation to the terms of the very substantial acquisition and connected transaction previously approved by the then independent shareholders of the Company at the special general meeting held on 23 December 2020. As such, the Company is required to re-comply with all applicable provisions under the Listing Rules, including the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules, respectively.

As the highest applicable percentage ratio in respect of the transaction contemplated under the Amended Rudong Entrusted Construction Management Contract exceeds 25% but is less than 100%, the Amended Rudong Entrusted Construction Management Contract constitutes a major transaction and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules, respectively.

## **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. WANG Minhao, Mr. YANG Xiaosheng and Mr. LEUNG Chi Ching Frederick, has been established to advise the Independent Shareholders as to (i) whether the terms of the Variation Agreement are fair and reasonable; (ii) whether the transactions contemplated under the Variation Agreement will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms, and are in the interests of the Company and Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the ordinary resolution(s) to be proposed at the Special General Meeting, taking into account the recommendation of the Independent Financial Adviser.

## **INDEPENDENT FINANCIAL ADVISER**

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give recommendations to the Independent Board Committee and the Independent Shareholders (i) whether the terms of the Variation Agreement are fair and reasonable; (ii) whether the transactions contemplated under the Variation Agreement will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms, and are in the interests of the Company and Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the ordinary resolution(s) to be proposed at the Special General Meeting.

We had acted as the independent financial adviser for the Company with regard to (i) its continuing connected transactions for the renewal of the Original Financial Services Framework Agreements, details of which are set out in the circular of the Company dated 24 November 2023; and (ii) variation of terms of the Rudong Entrusted Construction Management Contract, details of which are set out in the circular of the Company dated 24 November 2023. Saved for the aforesaid transaction, we have not acted as independent financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the transactions contemplated under the Rudong Entrusted Construction Management Contract is at market level and not conditional upon successful passing of the resolution(s) to be proposed at the Special General Meeting, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).



## BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, amongst others, (i) the Variation Agreement and the Rudong Entrusted Construction Management Contract; (ii) the annual report of the Company for the year ended 31 December 2023 (“**2023 Annual Report**”); and (iii) other information contained or referred to in the Circular.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors, the management of the Company (“**Management**”) and the management of the Contractor. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular are accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading.

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Management and the management of the Contractor have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

### 1. Background information of the Company, the CGN and parties involved in the Variation Agreement

#### *1.1. The Group*

The Group is a diversified independent power producer in terms of fuel type and geography, with a portfolio of gas-fired, coal-fired, oil-fired, wind, solar, hydro, cogen, fuel cell power and biomass projects in the PRC and Korea.

#### *1.2. CGN*

CGN is a state-owned enterprise established in the PRC and the controlling shareholder of the Company. The CGN Group is principally engaged in the generation and sale of power, construction, operation and management of nuclear, clean and renewable power projects.

#### *1.3. CGN Nantong*

CGN Nantong is a non-wholly-owned subsidiary of the Company incorporated in the PRC. It is principally engaged in the development, construction, operation and maintenance of projects for generation of wind power and photovoltaic power projects, as well as the technical consultation and services for wind power and photovoltaic power projects.

#### *1.4 China Nuclear Power Engineering*

China Nuclear Power Engineering is a non-wholly owned subsidiary of CGN and a wholly-owned subsidiary of CGN Power incorporated in the PRC. It is principally engaged in contracting of nuclear power and civil construction projects, and engineering construction technical services and consultation.

#### *1.5 CGN Power*

CGN Power is a non-wholly owned subsidiary of CGN. It is principally engaged in the building, operation, management of nuclear power plants, selling of electricity generated by these nuclear power plants and organising design and research and development of nuclear power plants. Its shares are listed on both the Main Board of the Stock Exchange and the Shenzhen Stock Exchange.

## 2. Reasons for entering into the Variation Agreement

The Group had been promoting offshore wind power business in recent years, as evidenced by the Group's growth in revenue generated from PRC wind projects from approximately US\$265.9 million in the year ended 31 December 2020 to approximately US\$569.2 million, US\$692.8 million and US\$702.4 million in the year ended 31 December 2021, 2022 and 2023 respectively. The purpose of entering into of the Variation Agreement is to revise the total consideration under the Rudong Entrusted Construction Management Contract arising from the "rush-to-install-tide" (搶裝潮) as detailed in the section headed "Reasons for and benefits of entering into of the Variation Agreement" under the "Letter from the Board".

The revised total consideration was determined by the parties after arm's length negotiation with reference to (i) changes in the work scope and market price necessary to complete the Rudong Offshore 300MW Wind Farm Project that leads to an increase in costs; (ii) the consideration of that such increase in costs is not due to mismanagement by the Contractor; and (iii) most of the increase is composed of increase in construction and installation engineering fees.

The change in work scope is for the completion of the design, procurement and construction work and management of the Rudong Offshore 300MW Wind Farm Project. The increase in total consideration as a result of the change in work scope is in line with general commercial terms and market price of similar projects.

The Rudong Offshore 300MW Wind Farm Project has been connected to the grid in full capacity in 2021 as planned, the initial total consideration has been settled. Subject to the fulfillment of the conditions precedent of the Variation Agreement, the additional amount (other than any quality assurance fee) resulting from the increase in the total consideration shall be paid as soon as possible after approval by the Shareholders and any quality assurance fee shall be paid in accordance with the provisions regarding quality assurance fees under the Rudong Entrusted Construction Management Contract.

Having obtained and reviewed the supporting documents as detailed in the sub-section headed "3. Principal terms of the Variation Agreement" below and taking into account the above, we are of the view that the entering into the Variation Agreement are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

### 3. Principal terms of the Variation Agreement

A summary of the principal terms of the Variation Agreement is set out below:

#### 3.1 Date and parties

Date:	25 April 2024
Parties:	(1) CGN Nantong (as employer); and (2) China Nuclear Power Engineering (as Contractor)

#### 3.2 Revised total consideration and pricing basis

It is proposed that the total consideration payable to the Contractor under the Rudong Entrusted Construction Management Contract shall be revised to a fixed contract price of approximately RMB2.4 billion (inclusive of tax) which comprises the following:

	<b>Initial consideration</b> <i>RMB million</i>	<b>Revised consideration</b> <i>RMB million</i>	<b>Additional amount</b> <i>RMB million</i>
Equipment procurement fees (inclusive of tax)	569	570	1
Construction and installation engineering fees (inclusive of tax)	1,414	1,746	332
Survey and design fees (inclusive of tax)	52	52	N/A
Other service fees (inclusive of tax)	25	31	6
Project management fees (inclusive of tax)	<u>30</u>	<u>30</u>	<u>N/A</u>
Total	<u>2,090</u>	<u>2,429</u>	<u>339</u>

We noted that the revised total consideration of approximately RMB2.4 billion comprises additional amount (the “**Additional Amount**”) from (i) equipment procurement fees; (ii) construction and installation engineering fees; and (iii) other services fees. There was no change in survey and design fees or project management fees.

The revised total consideration was determined by the parties after arm's length negotiation with reference to (i) changes in the work scope and market price necessary to complete the Rudong Offshore 300 MW Wind Farm Project that leads to an increase in costs; (ii) the consideration that such increase in costs is not due to mismanagement by the Contractor; and (iii) most of the increase is composed of increase in construction and installation engineering fees. The increase in total consideration is in line with general commercial terms and market price of similar projects. The project management fees (inclusive of tax) remain unchanged at RMB30 million and the rate charged remains lower than the rate set out in the "Regulations and Cost Standards for the Preparation of Budgetary Estimates for Offshore Wind Farm Engineering Design" 《海上風電場工程設計概算編製規定及費用標準》).

To assess the fairness and reasonableness of the Additional Amount and whether and how the Additional Amount is not due to mismanagement by the Contractor, we have conducted the following work:

- (i) Enquired with the Management about the reasons for the Additional Amount and noted that the Additional Amount was due to change in work scope, which is necessary to complete the Rudong Offshore 300MW Wind Farm Project.
- (ii) For each of the items comprising the Additional Amount, obtained and reviewed (i) meeting notes among subsidiary of the Group, CGN Power Engineering and its downstream subcontractors relating to the reasons for the potential change in work scope and fees and the details of measures taken by the Contractor including securing additional storage facilities, construction equipment, construction and transportation vessels; (ii) correspondences between subsidiary of the Group and CGN Power Engineering relating to the confirmation of change of work scope and fees; (iii) the letter of variation order issued by CGN Power Engineering relating to the change of work scope and fees to its downstream subcontractors; and (iv) the letter of on-site confirmation of change of work scope signed by representatives of the Group, CGN Power Engineering and project supervision institute. We have discussed with the Management and understand that a governmental authority had requested additional anti-corrosion coatings with absorbing properties which resulted in the change in work scope for the equipment procurement service and additional fees.

Taking into account the above independent work done and the fact that the project management fee payable to the Contractor remained unchanged, we are of the view that (i) the increase in costs is not due to mismanagement by the Contractor; and (ii) the revised total consideration has been arrived at with proper basis and is therefore fair and reasonable.

### 3.3 Section summary

Taking into account that (i) the principal term of the Variation Agreement is the revision of total consideration; (ii) the Additional Amount leading to the revised total consideration has been arrived at with proper basis; and (iii) saved for the terms of the Variation Agreement, other terms of the Rudong Entrusted Constriction Management Contract remain unchanged and therefore continued to be fair and reasonable as analysed in our opinion contained in the circular of the Company dated 8 December 2020, we are of the view that the terms of the Variation Agreement are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the terms of the Variation Agreement are fair and reasonable; (ii) the transactions contemplated under the Variation Agreement will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms, and are in the interests of the Company and Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) relating to the Transaction to be proposed at the Special General Meeting.

Yours faithfully,

For and on behalf of Altus Capital Limited



**Jeanny Leung**  
Responsible Officer



**Leo Tam**  
Responsible Officer

*Ms. Jeanny Leung (“**Ms. Leung**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

*Mr. Leo Tam (“**Mr. Tam**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over nine years of experience in corporate finance and advisory in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Mr. Tam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*