

July 5, 2024

*The Independent Board Committee and the Independent Shareholders  
CGN Power Co., Ltd.\**

Dear Sirs,

**CONNECTED TRANSACTION IN RELATION TO POSSIBLE  
SUBSCRIPTION FOR A SHARE CONVERTIBLE CORPORATE  
BONDS BY CONNECTED PERSONS**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Possible Subscription, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated July 5, 2024 issued to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

The Company intends to apply to the Shenzhen Stock Exchange for the Issuance of A Share Convertible Corporate Bonds to non-specific investors in the PRC with a total amount of not exceeding RMB4.9 billion (RMB4.9 billion inclusive). The proposed Issuance of A Share Convertible Corporate Bonds shall be subject to the approvals of the Shareholders at the EGM and the Class Meetings, the issuance and listing review of the Shenzhen Stock Exchange and the registration with the CSRC.

According to the subscription arrangement for the existing A Shareholders of the plan for the Issuance of A Share Convertible Corporate Bonds as set out in the paragraph headed “16. Subscription arrangement for the existing A Shareholders” in the Circular, preferential placement of the A Share Convertible Corporate Bonds issued by the Company will be granted to the existing A Shareholders. The existing A Shareholders are entitled to surrender such rights. The specific amount of preferential placement to be granted to the existing A Shareholders shall be determined by the Board or its authorised persons as authorised by the

EGM and the Class Meetings through negotiation with the sponsor (the lead underwriter) based on market conditions prior to the Issuance and shall be disclosed in the announcement(s) in relation to the Issuance of A Share Convertible Corporate Bonds. The preferential placement is subject to the Company Law, the Listing Rules and all applicable laws, regulations and rules of any other governmental or regulatory authorities (including but not limited to rules and requirements relating to related party transactions).

As at the Latest Practicable Date, CGNPC held 560,235,000 H Shares and 29,176,641,375 A Shares. CGNPC shall have the pre-emptive rights to subscribe for the A Share Convertible Corporate Bonds and the right to surrender such rights. CGNPC may subscribe for the A Share Convertible Corporate Bonds with a maximum subscription amount of approximately RMB3,634,564,500.

As at the Latest Practicable Date, CGNPC was a controlling shareholder of the Company holding approximately 58.89% of the issued share capital of the Company, and was therefore a connected person of the Company. Accordingly, the Possible Subscription by CGNPC will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and shall be subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising Mr. Wong Ming Fung, Mr. Li Fuyou, and Ms. Xu Hua (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Possible Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Possible Subscription is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Possible Subscription at the EGM. We, TC Capital International Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

## **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, we have acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to an occasion as detailed in the circular of the Company dated April 6, 2023. Given (i) our independent role in the abovementioned engagement; and (ii) our fees for the abovementioned engagement represented an insignificant percentage of our revenue, we consider that the abovementioned engagement would not affect our independence to form our opinion in respect of the Possible Subscription.

## **BASIS OF OUR OPINION**

In putting forth our recommendation, we have relied on the information, opinions, facts and representations supplied to us by the Directors and/or the representatives of the Company. We have reviewed, among other things, (i) the annual reports of the Company for the years ended December 31, 2022 and 2023 (the “**2022 Annual Report**” and the “**2023 Annual Report**” respectively) and the first quarterly report of the Company for the three months ended March 31, 2024 (the “**2024 First Quarterly Report**”); (ii) other information as set out in the Circular; and (iii) relevant market data and information available from public sources.

We have assumed that all such information, opinions, facts and representations provided to us by the Directors and/or the representatives of the Company, for which they are fully responsible, are true, accurate and complete in all respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the representatives of the Company. The Company has also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld or is misleading.

We consider that we have sufficient information currently available to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Directors and/or the representatives of the Company, nor have we conducted any independent investigation into the business, affairs, operations, financial position or future prospects of each of the Company, CGNPC and any of their respective subsidiaries and associates.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion in respect of the Possible Subscription, we have taken into account the following principal factors and reasons:

### **1. Information on the Group and CGNPC**

#### ***1.1 Information on the Group***

As stated in the Letter from the Board, the Group mainly constructs, operates and manages nuclear power stations, sells electricity generated by these stations, and organises and launches the design of and scientific research projects for nuclear power stations.



Set out below is certain financial information of the Group for the three years ended December 31, 2023 (“FY2021”, “FY2022” and “FY2023”, respectively) and the three months ended March 31, 2023 and 2024 (“1Q2023” and “1Q2024”, respectively) as extracted from the 2022 Annual Report, the 2023 Annual Report and the 2024 First Quarterly Report:

	For the three months ended March 31,		For the year ended December 31,			
	2024	2023	2023	2022	2022	2021
	<i>RMB million</i> <i>(Unaudited)</i>	<i>RMB million</i> <i>(Unaudited)</i>	<i>RMB million</i> <i>(Audited)</i>	<i>RMB million</i> <i>(Audited and</i> <i>restated)</i>	<i>RMB million</i> <i>(Audited)</i>	<i>RMB million</i> <i>(Audited and</i> <i>restated)</i>
Operating revenue	19,182	18,289	82,549	82,822	82,822	80,679
Operating profit	6,334	6,219	20,594	18,846	18,845	18,354
Net profit attributable to shareholders of the parent company	3,604	3,486	10,725	9,964	9,965	9,764

  

	As at	As at December 31,			
	March 31, 2024	2023	2022	2022	2021
	<i>RMB million</i> <i>(Unaudited)</i>	<i>RMB million</i> <i>(Audited)</i>	<i>RMB million</i> <i>(Audited and</i> <i>restated)</i>	<i>RMB million</i> <i>(Audited)</i>	<i>RMB million</i> <i>(Audited and</i> <i>restated)</i>
Total assets	419,178	415,250	409,016	409,016	400,033
Total liabilities	250,750	249,946	251,083	251,086	249,083
Total equity attributable to shareholders of the parent company	116,954	113,236	107,026	107,028	100,942

As shown in the above table, the operating revenue of the Group increased to approximately RMB82,822 million for FY2022, representing a slight increase of approximately 3% as compared with the corresponding restated figure for FY2021. The net profit attributable to shareholders of the parent company for FY2022 represented a slight increase of approximately 2% as compared with the corresponding restated figure for FY2021. As stated in the 2022 Annual Report, the improvement in financial performance of the Group in FY2022 was mainly due to the increase in the construction volume of Huizhou nuclear power project and Cangnan nuclear power project of China Nuclear Power Engineering Co., Ltd.\*.

The operating revenue of the Group remained relatively stable and amounted to approximately RMB82,549 million for FY2023 as compared with the corresponding restated figure for FY2022. The net profit attributable to shareholders of the parent company for FY2023 increased to approximately RMB10,725 million, representing an increase of approximately 8% as compared with the corresponding restated figure for FY2022. As advised by the representatives of the Company, the improvement in financial performance of the Group in FY2023 was mainly due to the increase of the sales of electricity as the result of the increase in the total annual on-grid power generation in FY2023 as compared with FY2022.

The operating revenue of the Group increased to approximately RMB19,182 million for 1Q2024, representing an increase of approximately 5% as compared with the corresponding figure for 1Q2023. The net profit attributable to shareholders of the parent company for 1Q2024 amounted to approximately RMB3,604 million, representing a slight increase of approximately 3% as compared with the corresponding figure for 1Q2023. According to the 2024 First Quarterly Report, the improvement in financial performance of the Group in 1Q2024 was primarily due to the increase in construction, installation and construction design business for nuclear power projects under construction in Huizhou, Cangnan, etc.

The total equity attributable to shareholders of the parent company as at December 31, 2022 represented an increase of approximately 6% as compared with the corresponding restated figure as at December 31, 2021. The total equity attributable to shareholders of the parent company as at December 31, 2023 amounted to approximately RMB113,236 million, representing an increase of approximately 6% as compared with the corresponding restated figure as at December 31, 2022. The total equity attributable to shareholders of the parent company as at March 31, 2024 further increased to approximately RMB116,954 million, representing an increase of approximately 3% as compared with the corresponding figure as at December 31, 2023. As advised by the representatives of the Company, such increases in the total equity attributable to shareholders of the parent company were mainly due to the profit-making position of the Group during FY2022, FY2023 and 1Q2024.

## ***1.2 Information on CGNPC***

As stated in the Letter from the Board, founded on September 29, 1994, CGNPC is a large clean energy enterprise under the supervision of the SASAC. CGNPC group is principally engaged in the generation and sale of electricity, and the construction, operation and management of nuclear power projects and non-nuclear clean energy projects. As at the Latest Practicable Date, CGNPC held approximately 58.89% of the issued share capital of the Company and was a controlling shareholder of the Company.

## **2. Reasons for and benefits of the Possible Subscription and use of proceeds**

### ***2.1 Reasons for and benefits of the Possible Subscription***

As stated in the Letter from the Board, the proceeds to be raised from the Issuance of A Share Convertible Corporate Bonds to non-specific investors, after deducting issuance expenses, are intended to be used for Guangdong Lufeng Nuclear Power Plant Unit 5 and Unit 6 Project (“Lufeng Unit 5” and “Lufeng Unit 6” respectively), which adopted the third-generation nuclear power and large-scale advanced pressurised water reactor technology. Implementation of this investment project is in compliance with the national key strategic directions in respect of energy safety, carbon peaking and carbon neutrality, and is in line with the industry policy of national energy development.





As further disclosed in the Letter from the Board, the investment project has strong profitability and good development prospects. The proceeds to be raised from the Issuance of A Share Convertible Corporate Bonds will deliver great economic benefits to the Company by helping optimise its financial structure, meeting its business expansion needs, further expanding its operating scale and comprehensive strength, improving the operating efficiency and core competitiveness, which will lay a solid foundation for the healthy and rapid development in the future, and thus are in the interests of the Company and the Shareholders as a whole. The Possible Subscription facilitates the smooth implementation of the Issuance and the decision-making on the long-term strategies of the Company.

*Outlook for the nuclear power industry in the PRC*

With reference to the 2023 Annual Report, the 20th National Congress of the Communist Party of the PRC convened in October 2022 outlined the strategic direction of actively, safely and orderly developing nuclear energy. This direction is an essential component of the national energy strategy, playing a crucial role in optimising the national energy structure, ensuring energy security, and establishing a new energy system. According to the “Report on the Work of the Government”\* (《政府工作報告》) released on March 5, 2023, the State Council proposed the principles of “maintaining safe and stable energy supply and low-carbon green development” and “accelerating the construction of new energy system”. Moreover, during the National Ecosystem and Environmental Protection Conference held on July 17, 2023, emphasis was placed on “actively and steadily pushing forward the achievement of carbon peaking and carbon neutrality” and “developing a clean, low-carbon, safe and efficient energy system”.

According to the “Bluebook on the Development of New Power System”\* (《新型電力系統發展藍皮書》) issued by the National Energy Administration of the PRC on June 2, 2023, an accelerated transition phase is underway for the new power system in the PRC from 2023 to 2030, during which a unified national power market system will be fundamentally established. The Chinese government aims to achieve a peak in carbon dioxide emissions before 2030.

Pursuant to the “Plan for Modern Energy System during the 14th Five-Year Period”\* (《「十四五」現代能源體系規劃》) issued by the National Development and Reform Commission and the National Energy Administration of the PRC on March 22, 2022, the Chinese government aims to reduce carbon dioxide emissions by 18% and energy intensity by 13.5% per unit of gross domestic product over the 14th five-year period. It also endeavours to attain a target of 39% for non-fossil energy power generation and sets a goal of reaching 20% non-fossil energy consumption by 2025. The annual production capacity of non-fossil energy in the eastern and central regions of the PRC, particularly in the Guangdong-Hong Kong-Macau Greater Bay Area (the “**Greater Bay Area**”) and other areas, is expected to increase by over 150 million tonnes of standard coal during the 14th five-year period. The installed capacity of nuclear power generating units in the PRC is expected to reach 70 gigawatts by 2025 (the “**Capacity Target**”). According to the statistical data published by the National Energy Administration of the PRC on January 26, 2024, the national investment in nuclear power engineering construction reached RMB94.9 billion in 2023, representing an

increase of 20.8% as compared with the preceding year. We further noted from the statistical data that the installed capacity of nuclear power generating units in the PRC as of December 31, 2023 amounted to 56.91 gigawatts, accounting for approximately 1.9% of the total installed capacity of power generating units in the PRC in 2023 and approximately 81.3% of the Capacity Target, which indicates that nuclear power occupies a relatively modest share in the national energy structure with ample room for development. The Company believed that with the Chinese government's active promotion of carbon peaking and carbon neutrality, enhanced energy security and expedited construction of a new energy system, the nuclear power industry in the PRC remains in a crucial phase of strategic opportunities, offering substantial potential for growth and promising market prospects.

*Reinforcing the advantages of nuclear power generating units as a principal business*

As disclosed in the 2022 Annual Report and the 2023 Annual Report, operating revenue generated from the nuclear power business operation, sales of electricity and related technical services segment accounted for over 70% of the total operating revenue of the Group for each of FY2021, FY2022 and FY2023. As discussed in the section headed "Information on the Group" above, the operating revenue of the Group represented a slight increase for FY2022 and remained relatively stable for FY2023. Such financial performance of the Group was mainly due to the increase in the construction volume of Huizhou nuclear power project and Cangnan nuclear power project, the increase in power generation by the subsidiaries of the Company as well as the commencement of commercial operation of Hongyanhe nuclear power station Unit 6 and Fangchenggang nuclear power station Unit 3 in June 2022 and March 2023 respectively.

As advised by the representatives of the Company, the Group managed 27 nuclear power generating units in operation (the "Operating Units") and 11 nuclear power generating units being approved and under construction (including those under construction which were entrusted by the controlling shareholder to the Company for management) as of December 31, 2023. The total on-grid power generated by the Operating Units for the year ended December 31, 2023 increased by approximately 7.95% compared with that for FY2022. A total of 10 nuclear power projects managed by the Group, including Lufeng Unit 5 and Lufeng Unit 6, were approved by the State Council during FY2022 and FY2023, which signifies the Chinese government's support for the construction of new nuclear power generating units in the PRC.

As discussed in the section headed "Outlook for the nuclear power industry in the PRC" above, the Chinese government places emphasis on expediting the development of clean energy in the Greater Bay Area during the 14th five-year period. Since Lufeng Unit 5 and Lufeng Unit 6 are situated in the Guangdong Province of the PRC, the Company stands to benefit from the proactive implementation of national policies that promote the utilisation of clean energy. Hence, the Directors are of the view that Lufeng Unit 5 and Lufeng Unit 6 will contribute to the Group's pursuit of gaining competitive advantages in the nuclear power industry, expanding the scale of its nuclear power business and enhancing the core competitiveness of its principal business.

*Enhancing financial structure and supporting working capital requirements*

According to the 2023 Annual Report, the debt to equity ratio (calculated as net debt (the total amount of bank and other borrowings less cash and cash equivalents and other deposits over three months) over total shareholders' equity) of the Company had reached approximately 111.2% as at December 31, 2023. As advised by the representatives of the Company, as at December 31, 2023, the Group possessed cash and cash equivalents of approximately RMB9,098 million and had total borrowings comprising short-term loans, short-term bonds payable, long-term loans, bonds payable, and long-term loans and bonds payable due within one year of approximately RMB199,313 million, of which approximately RMB37,548 million was due within one year.

As advised by the representatives of the Company, despite the Company's decreasing debt level in recent years, debt financing has remained the primary approach for raising funds, and the fluctuating market interest rates have affected the debt financing cost of the Company. The Group is actively engaged in negotiations with its banking partners, leveraging the benefits of phased credit financing to satisfy its working capital requirements and replacing outstanding debts with bank borrowings at more favourable interest rates. Considering the Group's ongoing financing needs to fulfill its working capital requirements for the business expansion plan and the repayment of interest-bearing liabilities, it is believed that the Issuance of A Share Convertible Corporate Bonds offers a favourable opportunity for the Group to raise additional capital through equity financing, and the net proceeds from the Possible Subscription will alleviate the cash flow pressure and strengthen the debt repayment capability of the Group.

**2.2 Use of proceeds**

As set out in the Letter from the Board, the total amount of proceeds to be raised from the Issuance of A Share Convertible Corporate Bonds to non-specific investors shall not exceed RMB4.9 billion (including RMB4.9 billion). The net proceeds after deducting issuance expenses are intended to be used for the following purposes:

<b>Names of investment projects</b>	<b>Total project investment</b> <i>RMB million</i>	<b>Proceeds to be invested</b> <i>RMB million</i>
Lufeng Unit 5 and Lufeng Unit 6	40,865	4,900

As set out in the Letter from the Board, before receiving the proceeds from the Issuance of A Share Convertible Corporate Bonds, the Company will invest in the investment projects by internal funds based on the operating conditions and development plans. The funds will be replaced by the proceeds upon receipt. If the actual net proceeds from the Issuance are less than the total amount of proceeds to be invested in the investment projects mentioned above, the Board may make appropriate adjustments to the order and amount of investment of the proceeds within the scope of the above investment projects based on the actual needs of the investment projects. The shortfall will be funded by the Company.





As shown in the table above, all of the proceeds to be raised from the Issuance of A Share Convertible Corporate Bonds of up to RMB4,900 million will be utilised for the investment in Lufeng Unit 5 and Lufeng Unit 6. According to the 2022 Annual Report and the announcement of the Company dated August 27, 2023, Lufeng Unit 5 and Lufeng Unit 6 were approved by the State Council on April 20, 2022, and construction officially commenced on September 8, 2022 and August 26, 2023 respectively. For due diligence purposes, we have obtained and reviewed the excerpt from the feasibility report provided by the Company in relation to the construction of Lufeng Unit 5 and Lufeng Unit 6 and noted that the estimated base construction cost for Lufeng Unit 5 and Lufeng Unit 6 is approximately RMB32 billion, and the estimated total investment cost for Lufeng Unit 5 and Lufeng Unit 6 is approximately RMB40 billion (the “**Estimated Total Project Investment Cost**”). As mentioned in the section headed “Reinforcing the advantages of nuclear power generating units as a principal business” above, the Company believed that the investment in Lufeng Unit 5 and Lufeng Unit 6 has strategic significance for the sustainable development of the Company, which is expected to enhance the business performance and profitability of the Group in the foreseeable future. Having considered the Estimated Total Project Investment Cost and that the Company’s proposed allocation of all of the proceeds from the Issuance of A Share Convertible Corporate Bonds for the investment in Lufeng Unit 5 and Lufeng Unit 6 is in line with the principal business and strategic development plan of the Group, the proposed use of proceeds for the investment in Lufeng Unit 5 and Lufeng Unit 6 is deemed to be justifiable.

### **2.3 Financing methods available to the Company**

As advised by the representatives of the Company, the Directors have considered various fund raising alternatives apart from the proposed Issuance of A Share Convertible Corporate Bonds such as debt financing, rights issue or open offer.

In respect of debt financing or bank borrowings from commercial banks, the Directors are of the view that debt financing may not be the most practicable financing plan for the Group to meet its capital needs as bank borrowings may involve lengthy negotiation with banks and may incur higher interest expenses as compared to the coupon rate of A share convertible corporate bonds, which will adversely affect the profitability of the Group. With reference to the comparable analysis as set out under the section headed “Comparison with other market issues of A share convertible corporate bonds” below, we noted that the announced coupon rates of A share convertible corporate bonds proposed to be issued by the Comparables (as defined below) ranged from 0.20% to 3.50%, which was lower than the current five-year loan prime rate of 3.95% published by the People’s Bank of China. Besides, according to the 2023 Annual Report, the range of annual interest rates of the long-term loans of the Group for the year ended December 31, 2023 is from 1.50% to 5.15%.

In respect of equity financing, the Directors consider that (i) conducting a rights issue or open offer is time-consuming for a company with A shares listed on the Shenzhen Stock Exchange and H shares listed on the Hong Kong Stock Exchange; and (ii) the issuance of new Shares would lead to immediate dilution on the shareholding of the existing Shareholders within a relatively short period of time. On the contrary, the Issuance of A Share Convertible Corporate Bonds will not have an immediate dilution impact on the shareholding of the existing Shareholders upon completion of its issuance.



In light of the above, we concur with the Directors' view that the Possible Subscription, which forms an integral part of the proposed Issuance of A Share Convertible Corporate Bonds, is in the interests of the Company and the Shareholders as a whole.

### **3. Principal terms of the Possible Subscription**

#### ***3.1 Principal terms of the Possible Subscription***

As stated in the Letter from the Board, the terms and conditions of the Possible Subscription for the A Share Convertible Corporate Bonds by CGNPC are the same as those of subscription for the A Share Convertible Corporate Bonds by other existing A Shareholders.

Set out below is the summary of certain principal terms of the Possible Subscription as extracted from the Circular:

##### *(i) Type of securities to be issued*

The type of the securities to be issued is convertible corporate bonds which can be converted into A Shares. The A Share Convertible Corporate Bonds and the A Shares to be converted will be listed on the main board of the Shenzhen Stock Exchange.

##### *(ii) Size of the issuance*

The total amount of proceeds raised from the proposed Issuance of A Share Convertible Corporate Bonds will not exceed RMB4.9 billion (RMB4.9 billion inclusive). The actual amount of the proceeds raised shall be determined by the Board or its authorised persons as authorised by the EGM and the Class Meetings within the above range.

##### *(iii) Par value and issue price*

The A Share Convertible Corporate Bonds under the Issuance will be issued at par with a nominal value of RMB100 each.

##### *(iv) Bonds term*

The term of the A Share Convertible Corporate Bonds under the Issuance will be six years from the date of the Issuance.

##### *(v) Coupon rate*

The method for determination of coupon rate of the A Share Convertible Corporate Bonds under the Issuance and the final interest rate for the interest accrual year shall be determined by the Board or its authorised persons as authorised by the EGM and the Class Meetings through negotiation with the sponsor (the lead underwriter) in accordance with national policies, market conditions and the actual conditions of the Company prior to the Issuance.

We understood from the representatives of the Company that the above method for determination of coupon rate of the A Share Convertible Corporate Bonds is in compliance with the relevant PRC rules and regulations. In this respect, we noted from Article 61 of the Administrative Measures for the Issuance and Registration of Securities by Listed Companies (上市公司證券發行註冊管理辦法) (the “**Administrative Measures**”) promulgated by the CSRC that the coupon rate of a convertible corporate bond issued to non-specific investors shall be determined by the issuer and the lead underwriter through negotiations in accordance with the relevant regulations. We also noted from Article 44 of the Administrative Measures for the Issuance and Trading of Corporate Bonds (公司債券發行與交易管理辦法) (the “**Issuance and Trading Measures**”) promulgated by the CSRC that the issuer and the lead underwriter shall negotiate and determine the coupon rate of corporate bonds by market-based methods. As such, we consider that the method for determination of coupon rate of the A Share Convertible Corporate Bonds is in compliance with the Administrative Measures and the Issuance and Trading Measures.

With reference to the comparable analysis as set out under the section headed “Comparison with other market issues of A share convertible corporate bonds” below, all of the coupon rates of the A share convertible corporate bonds proposed to be issued by the Comparables (as defined below) (i) are yet to be determined before the relevant shareholders meetings; and (ii) shall be determined by their respective board of directors or its authorised persons (if applicable) in accordance with national policies, market conditions and the actual conditions of the Comparables prior to the issuance. After considering the above, we concur with the Company that it is common market practice that the coupon rate of the A Share Convertible Corporate Bonds was yet to be determined as at the Latest Practicable Date and the method for determination of the coupon rate of the A Share Convertible Corporate Bonds is in line with those of the A share convertible corporate bonds proposed to be issued by the Comparables.

*(vi) Term and method of principal and interest payment*

The interest of the A Share Convertible Corporate Bonds under the Issuance shall be paid on an annual basis. When the A Share Convertible Corporate Bonds mature, the principal of the outstanding A Share Convertible Corporate Bonds shall be repaid together with the interest accrued for the previous year.

*(vii) Conversion period*

The conversion period of the A Share Convertible Corporate Bonds under the Issuance shall commence on the first trading day immediately following the expiry of the six-month period after the date of the Issuance of A Share Convertible Corporate Bonds, and end on the maturity date of the A Share Convertible Corporate Bonds.

*(viii) Determination and adjustment of the Conversion Price*

The initial Conversion Price of the A Share Convertible Corporate Bonds under the Issuance shall not be lower than the higher of the average trading price of the A Shares for the 20 trading days immediately preceding the date of publication of the offering document (in the event that the A Share price was adjusted due to ex-right and ex-dividend during such 20 trading days, the average trading price of the A Shares on the trading days prior to the adjustment shall be calculated based on the price after such ex-right and ex-dividend) and the average trading price of the A Shares on the immediately preceding trading day and shall not be lower than the latest audited net asset value per Share and par value of the Shares. The specific initial Conversion Price shall be determined by the Board or its authorised persons as authorised by the EGM and the Class Meetings through negotiation with the sponsor (the lead underwriter) based on the market conditions and the actual conditions of the Company prior to the Issuance.

As advised by the representatives of the Company, we understood that the above method for determination of the initial Conversion Price is in compliance with the relevant PRC rules and regulations. We noted from Article 9 of the Measures for the Administration of Convertible Corporate Bonds (可轉換公司債券管理辦法) (the “**Convertible Corporate Bonds Measures**”) promulgated by the CSRC that the conversion price of a convertible bond issued to non-specific investors by a listed company shall not be lower than the average trading price of the issuer’s shares for the 20 trading days preceding the date of publication of the offering document and the average trading price on the trading day preceding the date of publication of the offering document, and shall not be amended upward. Accordingly, we consider that the method for determination of the initial Conversion Price is in compliance with the Convertible Corporate Bonds Measures.

With reference to the comparable analysis as set out under the section headed “Comparison with other market issues of A share convertible corporate bonds” below, we concur with the Company that it is common market practice that the initial Conversion Price was yet to be determined as at the Latest Practicable Date and the method for determination of the initial Conversion Price is in line with those of the A share convertible corporate bonds proposed to be issued by the Comparables.

The Conversion Price will be adjusted according to the formula as set out in the Letter from the Board upon the Issuance in case of changes in the Shares due to certain events, such as distribution of bonus shares, conversion or increase of share capital, issuance of new shares (excluding any increase in the share capital as a result of conversion of the A Share Convertible Corporate Bonds under the Issuance) or rights issue or distribution of cash dividends. We noted that the adjustment method is in line with those of the A share convertible corporate bonds proposed to be issued by the Comparables.

*(ix) Terms of downward adjustment to the Conversion Price*

If, during the term of the A Share Convertible Corporate Bonds under the Issuance, the closing prices of the A Shares on at least 15 trading days out of any 30 consecutive trading days are lower than 85% of the prevailing Conversion Price, the Board is entitled to propose a downward adjustment to the Conversion Price and submit the same to the general meeting and the class meetings for consideration and approval.

The abovementioned proposal is subject to the approval of more than two-thirds of Shareholders with voting rights who attend the general meeting and the class meetings respectively. Shareholders who hold the A Share Convertible Corporate Bonds under the Issuance shall abstain from voting at such general meeting and the class meetings. The adjusted Conversion Price shall be no less than the higher of the average trading price of A Shares for the 20 trading days immediately preceding the date of such a general meeting and class meetings and the average trading price of A Shares on the trading day immediately preceding the date of such a general meeting and class meetings. In addition, the adjusted Conversion Price shall not be lower than the latest audited net asset value per Share and the par value of the Share.

In the event of an adjustment to the Conversion Price during the aforementioned 30 consecutive trading days, in respect of the trading days prior to the adjustment to the Conversion Price, the calculation shall be based on the unadjusted Conversion Price and the closing price of the A Shares on each such day, and in respect of the days on which adjustment to the Conversion Price is made and the trading days afterwards, the calculation shall be based on the adjusted Conversion Price and the closing price of the A Shares on each such day.

If the Conversion Price adjustment date is on or after the date on which a Bondholder applies for the conversion but before the registration date of the shares to be issued upon conversion, then such conversion shall be executed based on the adjusted Conversion Price.

As advised by the representatives of the Company, we understood that the above downward adjustment mechanism to the Conversion Price is in compliance with the relevant PRC rules and regulations. We noted from Article 10 of the Convertible Corporate Bonds Measures that (i) the downward adjustment proposal to the conversion price is subject to the approval of more than two-thirds of the voting rights held by the shareholders attending the general meeting of the issuer and shareholders who hold the convertible corporate bonds shall abstain from voting at the general meeting; and (ii) the adjusted conversion price shall be no less than the higher of the average trading price of the shares of the issuer for the 20 trading days preceding the date of the general meeting and the average trading price of the shares of the issuer on the trading day preceding the date of such meeting. Accordingly, we consider that the downward adjustment mechanism to the Conversion Price is in compliance with the Convertible Corporate Bonds Measures.





With reference to the comparable analysis as set out under the section headed “Comparison with other market issues of A share convertible corporate bonds” below, we noted that all of the Comparables have conversion price downward adjustment mechanisms. As mentioned above, the Board is entitled to propose a downward adjustment to the Conversion Price if the closing prices of the A Shares on at least 15 trading days out of any 30 consecutive trading days are lower than 85% of the prevailing Conversion Price. Such threshold of 85% falls within the market range of the Comparables ranging from 80% to 90% of the prevailing conversion prices of the Comparables.

*(x) Method for determining the number of A Shares for conversion*

Where a Bondholder applies for the conversion during the conversion period under the Issuance, the formula for calculating the number of A Shares to be issued upon conversion is set out in the Letter from the Board.

The number of A Shares to be converted shall be in whole number where the Bondholder applies for the conversion. Where the remaining balance of the A Share Convertible Corporate Bonds is insufficient to be converted into one A Share, within five trading days from the date of conversion by the Bondholders, the Company shall pay the Bondholders in cash an amount equal to the par value of such A Share Convertible Corporate Bonds and the accrued interest thereof for current period in accordance with the relevant requirements of the Shenzhen Stock Exchange, the securities registration authority and other authorities.

*(xi) Terms of sale back*

A. Terms of conditional sale back

During the last two interest accrual years within the term of the A Share Convertible Corporate Bonds under the Issuance, if the closing prices of the A Shares on any 30 consecutive trading days are lower than 70% of the prevailing Conversion Price, the Bondholders are entitled to sell back the whole or part of the A Share Convertible Corporate Bonds they hold to the Company at par plus the then accrued interest.

In the event that an adjustment to the Conversion Price is made due to distribution of bonus shares, conversion or increase of share capital, issuance of new shares (excluding any increase in the share capital as a result of the conversion of the A Share Convertible Corporate Bonds under the Issuance) or rights issue, distribution of cash dividends during the aforementioned 30 consecutive trading days, in respect of the trading days prior to the adjustment, the calculation shall be based on the Conversion Price before the adjustment and the closing price of the A Shares on each such day, and in respect of the trading days on or after the adjustment, the calculation shall be based on the adjusted Conversion Price and the closing price of the A Shares on each such day. In the event that there is a downward adjustment to the Conversion Price, the aforesaid “30 consecutive trading days” shall be re-counted from the first trading day following the adjustment to the Conversion Price.



The Bondholders may exercise their sale back rights once every year when the sale back conditions have been initially satisfied according to the abovementioned agreed terms in the last two interest accrual years within the term of the A Share Convertible Corporate Bonds. Where the sale back conditions are initially satisfied and the Bondholders do not apply for and exercise their sale back rights during the sale back declaration period then announced by the Company, no sale back rights may be exercised during such interest accrual years. The Bondholders are not allowed to exercise part of their sale back rights for multiple times.

B. Additional terms of sale back

Where the actual use of the proceeds raised from the A Share Convertible Corporate Bonds under the Issuance significantly differs from the undertakings of the use of proceeds set out by the Company in the offering document, and such difference is considered by the CSRC and the Shenzhen Stock Exchange as a change in the use of proceeds, the Bondholders shall be entitled to a one-off right to sell the whole or part of the A Share Convertible Corporate Bonds they hold back to the Company at par plus the then accrued interest. Subject to additional condition of sale back, the Bondholders may sell their A Share Convertible Corporate Bonds back to the Company during the additional sale back declaration period as announced by the Company. If the Bondholders do not exercise their sale back rights during such period, no such right may be exercised.

We understood from the representatives of the Company that the above terms of sale back are in compliance with the relevant PRC rules and regulations. We noted from Article 11 of the Convertible Corporate Bonds Measures that the offering document may stipulate the terms of sale back and it shall specify that the convertible bonds holders will have the one-off sell-back right if the issuer changes the use of proceeds raised. Accordingly, we consider that the terms of sale back of the A Share Convertible Corporate Bonds are in compliance with the Convertible Corporate Bonds Measures.

With reference to the comparable analysis as set out under the section headed “Comparison with other market issues of A share convertible corporate bonds” below, the respective issuance plans of the Comparables included terms of sale back similar to those of the A Share Convertible Corporate Bonds. We noted that all of the Comparables involved the additional terms of sale back while three out of the five Comparables involved the terms of conditional sale back similar to those of the A Share Convertible Corporate Bonds.

*(xii) Other terms*

We have also reviewed the other terms of the Possible Subscription and were not aware of any abnormal term based on the Comparables.

### *3.2 Comparison with other market issues of A share convertible corporate bonds*

To further assess whether the principal terms of the Possible Subscription are fair and reasonable, we have also conducted a comparable analysis based on the criteria that (i) A share convertible corporate bonds were proposed to be issued by companies listed on both the Hong Kong Stock Exchange and the Shenzhen Stock Exchange or the Shanghai Stock Exchange; and (ii) the publications of the approved or submitted version of offering documents are within the period from January 1, 2022 to June 21, 2024 (i.e. the date of the announcement in relation to the Possible Subscription). We believe that the basis of selecting comparables with the criteria of publications of offering documents within the period from January 1, 2022 to June 21, 2024 is fair and reasonable given that (i) such criteria and period is sufficiently recent to demonstrate the prevailing market practices; and (ii) we were able to identify sufficient relevant market issues for comparison within such period.

Based on our independent research, we have, on best effort basis, identified five comparables (the “**Comparables**”) which are exhaustive market issues based on the aforesaid criteria. We have reviewed certain key terms of the A share convertible corporate bonds.



Set out below is the summary of the Comparables as extracted from their relevant announcements and offering documents published on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)):

Company name and stock code	Date of announcement	Date of publication of offering document	Term (years)	Basis for determining coupon rate	Coupon rate announced upon publication of offering document	Basis for determining initial conversion price	Conversion price downward adjustment mechanism	Terms of sale back
Shanghai Fudan Microelectronics Group Company Limited* (上海復旦微電子集團股份有限公司)	April 28, 2023	September 17, 2023	6	Same as the Possible Subscription	Not applicable (Note)	Same as the Possible Subscription, except that terms which are, it shall not be lower than the latest audited net asset value per share and par value of the shares, are not applicable	Same as the Possible Subscription, except that terms which are, it shall not be lower than the latest audited net asset value per share and par value of the shares, are not applicable	Same as the Possible Subscription



Company name and stock code	Date of announcement	Date of offering document	Term (years)	Basis for determining coupon rate	Coupon rate announced upon publication of offering document	Basis for determining initial conversion price	Conversion price downward adjustment mechanism	Terms of sale back
China Galaxy Securities Co., Ltd. (6881.HK)	August 30, 2021	March 21, 2022	6	Same as the Possible Subscription	First year: 0.2% Second year: 0.4% Third year: 0.6% Fourth year: 1.0% Fifth year: 1.8% Sixth year: 2.0%	Same as the Possible Subscription, and the adjusted conversion price is subject to one additional term which is, it shall not be lower than the average trading price of A shares during the 30 trading days immediately preceding the date of publication of offering document	Same as the Possible Subscription, except that the threshold is 80% of the prevailing price, and the adjusted conversion price is subject to one additional term which is, it shall not be lower than the average trading price of A shares during the 30 trading days immediately preceding the shareholder's general meeting	A. Terms of conditional sale back Not applicable B. Additional terms of sale back
Dynagreen Environmental Protection Group Co., Ltd.* (綠色動力環保集團股份有限公司)	July 23, 2021	February 22, 2022	6	Same as the Possible Subscription	First year: 0.2% Second year: 0.4% Third year: 0.6% Fourth year: 1.5% Fifth year: 1.8% Sixth year: 2.0%	Same as the Possible Subscription	Same as the Possible Subscription	Same as the Possible Subscription





Company name and stock code	Date of announcement	Date of publication of offering document	Term (years)	Basis for determining coupon rate	Coupon rate announced upon publication of offering document	Basis for determining initial conversion price	Conversion price downward adjustment mechanism	Terms of sale back
Flat Glass Group Co., Ltd. (6865.HK)	June 16, 2021	May 17, 2022	6	Same as the Possible Subscription	First year: 0.3% Second year: 0.5% Third year: 1.0% Fourth year: 1.5% Fifth year: 1.8% Sixth year: 2.0%	Same as the Possible Subscription, except that terms which are, it shall not be lower than the latest audited net asset value per share and par value of the shares, are not applicable	Same as the Possible Subscription, except that the threshold is 90% of the prevailing conversion price	Same as the Possible Subscription
Bank of Chongqing Co., Ltd.* (重慶銀行股份有限公司) (1963.HK)	March 30, 2021	March 21, 2022	6	Same as the Possible Subscription	First year: 0.2% Second year: 0.4% Third year: 1.0% Fourth year: 1.7% Fifth year: 2.5% Sixth year: 3.5%	Same as the Possible Subscription	Same as the Possible Subscription, except that the threshold is 80% of the prevailing conversion price	A. Terms of conditional sale back B. Additional terms of sale back



Company name and stock code	Date of announcement	Date of offering document	Term (years)	Basis for determining coupon rate	Coupon rate announced upon publication of offering document	Basis for determining initial conversion price	Conversion price downward adjustment mechanism	Terms of sale back
The Company (1816.HK)	June 21, 2024	Not applicable	6	To be determined by the Board or its authorised persons as authorised by the EGM and the Class Meetings through negotiation with the sponsor (the lead underwriter) in accordance with national policies, market conditions and the actual conditions of the Company prior to the Issuance	Not applicable	Not lower than the higher of the average trading price of the A Shares for the 20 trading days immediately preceding the date of publication of the offering document and the average trading price of the A Shares on the immediately preceding trading day, and not lower than the latest audited net asset value per Share and par value of the Shares	If the closing prices of the A Shares on at least 15 trading days out of any 30 consecutive trading days are lower than 85% of the prevailing Conversion Price	A. Terms of conditional sale back During the last two interest accrual years within the term of the A Share Convertible Corporate Bonds, if the closing prices of the A Shares on any 30 consecutive trading days are lower than 70% of the prevailing Conversion Price, the Bondholders are entitled to sell back the whole or part of the A Share Convertible Corporate Bonds they hold to the Company



Company name and stock code	Date of announcement	Date of publication of offering document	Term (years)	Basis for determining coupon rate	Coupon rate announced upon publication of offering document	Basis for determining initial conversion price	Conversion price downward adjustment mechanism	Terms of sale back
								<p><u>B. Additional terms of sale back</u></p> <p>Where the actual use of the proceeds raised from the A Share Convertible Corporate Bonds significantly differs from the undertakings of the use of proceeds set out by the Company in the offering document, and such difference is considered by the CSRC and the Shenzhen Stock Exchange as a change in the use of proceeds, the Bondholders shall be entitled to a one-off right to sell the whole or part of the A Share Convertible Corporate Bonds they hold back to the Company</p>

*Note: As at the Latest Practicable Date, the offering document of Shanghai Fudan Microelectronics Group Company Limited\*, which was submitted on September 17, 2023 and approved by the Shanghai Stock Exchange on January 26, 2024, was yet to be approved by the CSRC. Therefore, the actual coupon rate has not been determined.*

As depicted by the above table, the Possible Subscription is not exceptional based on comparison with the Comparables. Moreover, the key terms of the A Share Convertible Corporate Bonds are largely the same as those of the other convertible corporate bonds proposed to be issued by the Comparables. Therefore, we consider that the terms of the A Share Convertible Corporate Bonds are in line with the market practice. In light of the above factors, in particular that (i) it is common market practice that the coupon rate and the initial Conversion Price of the A Share Convertible Corporate Bonds were yet to be determined as at the Latest Practicable Date and the methods for determination of the coupon rate and the initial Conversion Price are in line with those of the A share convertible corporate bonds proposed to be issued by the Comparables; (ii) the terms of the A Share Convertible Corporate Bonds are in line with the market practice; and (iii) the terms and conditions of the Possible Subscription for the A Share Convertible Corporate Bonds by CGNPC are the same as those of subscription for the A Share Convertible Corporate Bonds by other A Shareholders, we are of the view that the terms of the Possible Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

#### **4. Dilution effect on the shareholding interests of the existing public Shareholders**

The shareholding structures of the Company as at the Latest Practicable Date and after completion of the proposed Issuance of A Share Convertible Corporate Bonds and conversion of all the A Share Convertible Corporate Bonds into the A Shares are set out in the Letter from the Board.

Nevertheless, as balanced by (i) the reasons for and benefits of the Possible Subscription as set out in the section headed “Reasons for and benefits of the Possible Subscription and use of proceeds” above; and (ii) the fairness and reasonableness of the principal terms of the Possible Subscription, we are of the view that the possible dilution effect on the shareholding of the existing public Shareholders is acceptable.

#### **5. Financial effects of the Possible Subscription**

##### **5.1 Earnings**

As disclosed in the Letter from the Board, all of the proceeds to be raised from the proposed Issuance of A Share Convertible Corporate Bonds will be utilised for the investment in Lufeng Unit 5 and Lufeng Unit 6. Although Lufeng Unit 5 and Lufeng Unit 6 are still in their construction phase and will only be able to contribute profit to the Group when in operation, in light of the future prospects of Lufeng Unit 5 and Lufeng Unit 6 as expected by the Directors, the Directors are of the view that the proposed Issuance of A Share Convertible Corporate Bonds would likely to have a positive impact on the future earnings of the Group. On the other hand, the earnings of the Group will be affected by the interest payable to the Bondholders before the full conversion of the A Share Convertible Corporate Bonds and the changes in fair value of conversion option derivative to be measured at the end of each financial year before the maturity of the A Share Convertible Corporate Bonds.



### **5.2 Net asset value**

According to the 2023 Annual Report, the net asset value of the Group amounted to approximately RMB165,304 million as at December 31, 2023. Upon completion of the proposed Issuance of A Share Convertible Corporate Bonds, the total assets of the Group will be increased by the amount of proceeds to be raised therefrom. The A Share Convertible Corporate Bonds will be accounted for in two separate components in the consolidated balance sheet of the Group, comprising a liability component and an equity component, at initial recognition. The liability component will be determined by using a market interest rate for an equivalent non-convertible bond and will be recorded as a non-current liability at initial recognition. The difference between the net proceeds from the proposed Issuance of A Share Convertible Corporate Bonds and such liability component will be recognised as the equity component and included in the total shareholders' equity. Accordingly, the net asset value of the Group will be increased while the actual impact will be determined with reference to the valuation of the equity component of the A Share Convertible Corporate Bonds. Following the conversion of the A Share Convertible Corporate Bonds, the net asset value of the Group will be increased as a result of the decrease in liabilities.

### **5.3 Debt to equity ratio**

According to the 2023 Annual Report, the Group reported a debt to equity ratio (calculated as net debt (the total amount of bank and other borrowings less cash and cash equivalents and other deposits over three months) over total shareholders' equity) of 111.2% as at December 31, 2023. Upon completion of the proposed Issuance of A Share Convertible Corporate Bonds, the net debt of the Group will be decreased by the difference between the net proceeds from the Issuance of A Share Convertible Corporate Bonds and the liability component of the A Share Convertible Corporate Bonds while the total shareholders' equity will be increased by the equity component of the A Share Convertible Corporate Bonds. Hence, the debt to equity ratio of the Group will be decreased. Following the conversion of the A Share Convertible Corporate Bonds, the debt to equity ratio of the Group will be reduced.

Shareholders should note that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Possible Subscription, which forms an integral part of the proposed Issuance of A Share Convertible Corporate Bonds.





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## **RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the view that the terms of the Possible Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Possible Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Possible Subscription.

Yours faithfully,  
For and on behalf of  
**TC Capital International Limited**

**Edward Wu**  
*Chairman*

**Edith Lee**  
*Managing Director*

*Note: Mr. Edward Wu has been a responsible officer of type 6 (advising on corporate finance) regulated activities under the SFO since 2005. Ms. Edith Lee has been a responsible officer of type 6 (advising on corporate finance) regulated activities under the SFO since 2015. Both Mr. Wu and Ms. Lee have participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.*

\* *For identification purpose only*