## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

**If you are in any doubt** as to the action you should take, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser immediately.

**If you have sold or transferred** all your Shares in the capital of the Company, you should at once hand this Circular, the notice of extraordinary general meeting ("**EGM**") and attached proxy form to the purchaser or to the stockbroker or to the bank or to the agent through whom you effected the sale or transfer for onward transmission to the purchaser or transferee.



This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase, or subscribe for securities of the Company.

# HENGXIN TECHNOLOGY LTD.
# 亨鑫科技有限公司*

*(carrying on business in Hong Kong as HX Singapore Ltd.)*

*(incorporated in Republic of Singapore with limited liability)*

**(Stock Code: 1085)**

# (1) MAJOR TRANSACTION IN RELATION TO POSSIBLE ACQUISITIONS;
# (2) CONNECTED TRANSACTION IN RELATION TO PROVISION OF LOAN TO A CONNECTED SUBSIDIARY;
# AND
# (3) NOTICE OF EGM

**Financial Adviser of the Company**

邁時資本 MAXA CAPITAL

**Independent Financial Adviser**
**to the Independent Board Committee and the Independent Shareholders**

德健融資有限公司 DAKIN CAPITAL LIMITED

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

A letter from the Board is set out from pages 6 to 23 of this circular. A letter from the Independent Board Committee is set out from pages 24 to 25 of this circular. A letter from Dakin Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 60 of this circular.

A notice convening the EGM to be held at Unit 08, 43/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong on 19 July 2023 (Wednesday) at 11:00 a.m. or any adjournment is set out from pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed.

Whether or not you are able to attend the EGM, you are requested to complete and return the proxy form accompanying this circular in accordance with the instructions printed thereon appointing the chairman of the EGM as your proxy, to the Company's Principal Share Registrar in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632 (for Shareholders registered in Singapore), or to the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for Shareholders registered in Hong Kong) as soon as possible and in any event not later than forty-eight (48) hours before the time of the EGM (or at any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish and in such event, the form of proxy shall be deemed to be revoked.

29 June 2023

# CONTENTS

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

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| "associate" | has the meaning ascribed to it under the Listing Rules |
| "Bid" | the bid submitted by the Partnership at the Public Tender for approximately 44.46% equity interest of the Target Company |
| "Board" | the board of Directors |
| "Cosin Solar" | Cosin Solar Technology Co., Ltd. (浙江可勝技術股份有限公司), a company established under the PRC laws with limited liability |
| "Company" | Hengxin Technology Ltd., a company incorporated in Republic of Singapore with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1085) |
| "Completions" | completions of the Possible Acquisitions |
| "connected persons" | has the meaning ascribed to it under the Listing Rules |
| "Director(s)" | the director(s) of the Company |
| "EGM" | the extraordinary general meeting of the Company to be held for the Shareholders to, among other things, consider and, if thought fit, approve the Proposed Mandate, the Possible Acquisitions and the Loan Agreement and the transactions contemplated thereunder |
| "Enlarged Group" | the Group as enlarged by the Target Group after the Completions |
| "Equity Transfer Agreement I" | the conditional equity transfer agreement dated 31 May 2023 and entered into between the Partnership and Gongqing City in respect of the possible acquisition of 4.45% equity interest of the Target Company |
| "Equity Transfer Agreement II" | the conditional equity transfer agreement dated 31 May 2023 and entered into between the Partnership and Hangzhou Jingneng in respect of the possible acquisition of 2.09% equity interest of the Target Company |
| "Fuju Zhongguang" | Ningbo Fuju Zhongguang Venture Capital Enterprise Partnership (Limited Partnership)* (寧波復聚中光創業投資合夥企業 (有限合夥)), a partnership established under the PRC laws with limited liability |

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| "Fuju Kunsheng" | Ningbo Fuju Kunsheng Venture Capital Enterprise Partnership (Limited Partnership)* (寧波復聚坤晟創業投資合夥企業 (有限合夥)), a partnership established under the PRC laws with limited liability |
| "Gansu Yumen" | Gansu Yumen Zhongkong Solar Energy Generation Co., Ltd.* (甘肅玉門眾控太陽能發電有限公司), a company established under the PRC laws with limited liability and is a direct non-wholly-owned subsidiary of the Target Company |
| "Gongqing City" | Gongqing City Shengmei Investment Management Enterprise Partnership (Limited Partnership)* (共青城盛美投資管理合夥企業 (有限合夥)), a partnership established under the PRC laws with limited liability |
| "Group" | the Company and its subsidiaries from time to time |
| "Hangzhou Heda" | Hangzhou Heda Financial Services Co., Ltd. (杭州和達金融服務有限公司), a company established under the PRC laws with limited liability |
| "Hangzhou Jingneng" | Hangzhou Jingneng Huichu Enterprise Management Enterprise Partnership (Limited Partnership)* (杭州淨能慧儲企業管理合夥企業(有限合夥)), a partnership established under the PRC laws with limited liability |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Huzhou Yuri" | Huzhou Yuri Enterprise Management Enterprise Partnership (Limited Partnership)* (湖州煜日企業管理合夥企業(有限合夥)), a partnership established under the PRC laws with limited liability |
| "Independent Board Committee" | the independent committee of the Board formed by the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the Loan Agreement |
| "Independent Financial Adviser" or "Dakin Capital" | Dakin Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder |
| "Independent Third Parties" | third parties who are not, and are independent of, the connected persons of the Company |

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| "Independent Shareholders" | Shareholders other than Mr. Peng Yinan and his associates |
| "Latest Practicable Date" | 26 June 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Loan" | the loan in the principal amount of RMB210,000,000 to be granted by Xin Ke Xin to Nanjing Zhangyu pursuant to the Loan Agreement |
| "Loan Agreement" | the conditional loan agreement dated 31 May 2023 and entered into between Xin Ke Xin (as lender) and Nanjing Zhangyu (as borrower) in respect of the provision of the Loan to Nanjing Zhangyu |
| "Nanjing Zhangyu" | Nanjing Zhangyu Information Technology Co., Ltd* (南京掌御信息科技有限公司), a company established under the PRC laws with limited liability and an indirect non-wholly-owned subsidiary of the Company |
| "Partnership" | Hangzhou Longkong Zhongguang Enterprise Holding Enterprise Partnership (Limited Partnership)* (杭州龍控中光企業控股合夥企業(有限合夥)), a partnership established under the PRC laws with limited liability |
| "Partnership Agreement" | the partnership agreement and its supplemental agreement both dated 21 April 2023 and entered into between Nanjing Zhangyu as the general partner and Cosin Solar as the limited partner in respect of the formation of the Partnership |
| "Possible Acquisitions" | the possible acquisitions of the equity interest of the Target Company contemplated under the Standard Agreement, Equity Transfer Agreement I and Equity Transfer Agreement II |
| "PRC" | the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan |

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| "Previous Loan Agreement" | the loan agreement dated 28 April 2023 and entered into between Xin Ke Xin (as lender) and Nanjing Zhangyu (as borrower) in relation to the provision of the loan in the principal amount of RMB40,000,000 at the interest rate of 4.9% per annum for a term of one year commencing from 28 April 2023, being the date of the Previous Loan Agreement. For further details of the principal terms of the Previous Loan Agreement, please refer to the announcement of the Company dated 28 April 2023 |
| "Proposed Mandate" | a general mandate proposed to be granted in advance by the Shareholders at the EGM to the Directors to enter into and complete the Standard Agreement, issue the capital contribution notice by Nanjing Zhangyu and commit Nanjing Zhangyu's capital contribution related to formation of the Partnership under the Partnership Agreement |
| "Public Tender" | the public tender for selling approximately 44.46% equity interest of the Target Company through Hangzhou Equity Exchange |
| "Qinghai Zhongkong" | Qinghai Zhongkong Solar Energy Generation Co., Ltd.* (青海中控太陽能發電有限公司), a company established under the PRC laws with limited liability and is a direct wholly-owned subsidiary of the Target Company |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Shanghai Zhangyu" | Shanghai Zhangyu Information Technology Co., Ltd.* (上海掌御信息科技有限公司), a company established under the PRC laws with limited liability and an indirect non-wholly-owned subsidiary of the Company |
| "Share(s)" | ordinary share(s) in the issued share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Standard Agreement" | the equity transfer agreement to be entered into between the Partnership and Hangzhou Heda, upon successful winning of the Bid, in relation to the transfer of approximately 44.46% equity interest of the Target Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "substantial shareholder(s)" | has the same meaning ascribed to it under the Listing Rules |

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| "Target Company" | Zhejiang Zhongguang New Energy Technology Co., Ltd.* (浙江中光新能源科技有限公司), a company established under the PRC laws with limited liability |
| "Target Group" | Target Company and its subsidiaries from time to time |
| "Xin Ke Xin" | Xin Ke Xin (Suzhou) Technology Co., Ltd.* (鑫科芯(蘇州)科技有限公司), a company established under the PRC laws with limited liability and an indirect wholly-owned subsidiary of the Company |
| "Xinjiang Hami" | Xinjiang Hami Zhongkong Solar Energy Generation Co., Ltd.* (新疆哈密眾控太陽能發電有限公司), a company established under the PRC laws with limited liability and is a direct non-wholly-owned subsidiary of the Target Company |
| "Xizi Clean" | Xizi Clean Energy Equipment Manufacturing Co., Ltd. (stock code: 002534.SZ), a company listed on the Shenzhen Stock Exchange |
| "Xizi Elevator" | Xizi Elevator Group Co., Ltd.* (西子電梯集團有限公司), a company established under the PRC laws with limited liability |
| "Zhejiang Gaosheng" | Zhejiang Gaosheng Photothermal Power Generation Technology Research Institute Co., Ltd.* (浙江高晟光熱發電技術研究院有限公司), a company established under the PRC laws with limited liability |

*Words importing the singular number shall include the plural number where the context admits and vice versa. Words importing the masculine gender shall include the feminine gender where the context admits. Reference to persons shall, where applicable, include corporations.*

*In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.*

# HENGXIN TECHNOLOGY LTD.
# 亨鑫科技有限公司*

*(carrying on business in Hong Kong as HX Singapore Ltd.)*
*(incorporated in Republic of Singapore with limited liability)*
**(Stock Code: 1085)**

*Directors:*
Dr. Song Haiyan *(Executive Director)*
Mr. Peng Yinan *(Executive Director)*
Mr. Cui Wei *(Non-Executive Director and Chairman)*
Mr. Du Xiping *(Non-Executive Director)*
Ms. Zhang Zhong *(Non-Executive Director)*
Mr. Tam Chi Kwan Michael
*(Independent Non-Executive Director)*
Dr. Li Jun *(Independent Non-Executive Director)*
Mr. Pu Hong *(Independent Non-Executive Director)*

*Registered office:*
5 Tampines Central 1
#06-05 Tampines Plaza 2
Singapore 529541

*Head office and principal place of business in Singapore:*
5 Tampines Central 1
#06-05 Tampines Plaza 2
Singapore 529541

29 June 2023

*To: The Shareholders of Hengxin Technology Ltd.*

Dear Sir/Madam,

**(1) MAJOR TRANSACTION IN RELATION TO POSSIBLE ACQUISITIONS;**
**(2) CONNECTED TRANSACTION IN RELATION TO PROVISION OF LOAN TO A CONNECTED SUBSIDIARY;**
**AND**
**(3) NOTICE OF EGM**

## INTRODUCTION

Reference is made to the announcement of the Company dated 31 May 2023 in relation to the Possible Acquisitions and the Loan Agreement.

The purpose of this circular is to provide you with, among others, (i) further information on the Proposed Mandate, the Possible Acquisitions and the Loan Agreement; (ii) the letter of recommendation from the Independent Board Committee regarding the Loan Agreement and the transactions contemplated thereunder; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Loan Agreement and the transactions contemplated thereunder; (iv) other information as required under the Listing Rules; and (v) a notice of EGM.

## I. BID

The details of the potential acquisition under the Bid submitted by the Partnership as resolved by the Board are summarised below:

**Subject to be acquired under the Bid**

Approximately 44.46% equity interest of the Target Company held by Hangzhou Heda, an entity wholly owned by Hangzhou Qiantang New Area Industrial Development Group Co., Ltd.

**Bid price**

Upon successful winning of the Bid, approximately RMB635.7 million, being the Bid price under the Public Tender, and approximately RMB1.5 million, being the transaction expense, shall be payable by the Partnership in cash in the following manner:

(i) approximately RMB325.7 million, representing 51% of the consideration, and approximately RMB1.5 million, representing the transaction expense, shall be paid to Hangzhou Equity Exchange's designated account within 5 days after the signing of the Standard Agreement, subject to the pre-conditions set out therein, while the deposit of RMB128 million paid by the Partnership would be used to offset such consideration and transaction expense; and

(ii) approximately RMB310.0 million, representing 49% of the consideration shall be paid to Hangzhou Equity Exchange's designated account within 90 days after the payment by the Partnership for the 51% of the consideration as mentioned above.

**Basis for determination of the Bid price**

The Bid price of approximately RMB635.7 million is determined by the Board with reference to (i) the minimum bidding price of the Public Tender of approximately RMB635.7 million as published by Hangzhou Heda on the website of Hangzhou Equity Exchange; (ii) the historical financial performance of the Target Company; (iii) the valuation prepared by an independent valuer in respect of the 100% equity interest of the Target Company with market value of approximately RMB1,444.2 million as at 31 December 2022 under market approach; (iv) the business development opportunity and prospects of the Target Company and the industry; and (v) the benefits to be derived by the Group upon the Completions as described under the section headed "REASONS AND BENEFITS OF THE PROPOSED MANDATE, THE POSSIBLE ACQUISITIONS AND THE LOAN AGREEMENT" in this letter.

The consideration payable under the Standard Agreement, Equity Transfer Agreement I and Equity Transfer Agreement II, aggregated to approximately RMB729.2 million and the transaction expense of approximately RMB1.5 million, will be satisfied by the internal resources of the Partnership by way of capital contributions by Nanjing Zhangyu and Cosin Solar pursuant to the Partnership Agreement and bank borrowings.

**Pre-condition of entering into the Standard Agreement**

The entering into the Standard Agreement shall be subject to the compliance with all relevant rules and regulation by the Company, including but not limited to (i) the approval by the Shareholders in respect of the Proposed Mandate, Equity Transfer Agreement I and Equity Transfer Agreement II at the EGM; (ii) the approval by the Independent Shareholders in respect of the Loan Agreement at the EGM; and (iii) the Bid being won by the Partnership. The Proposed Mandate will remain valid for 12 months since the date of approval by the Shareholders at the EGM.

The Company does not intend to waive any of the aforesaid pre-conditions. As at the Latest Practicable Date, none of the pre-conditions has been fulfilled. Once the Partnership successfully wins the Bid, it will enter into the Standard Agreement in accordance with the terms set out by Hangzhou Equity Exchange. In the event that the Standard Agreement has not been entered into within 12 months after receiving the approval from the Shareholders at the EGM, the Proposed Mandate will lapse. To facilitate the completion of the Standard Agreement, the Company proposes not to include the approval of the Shareholders which is required under Chapter 14 of the Listing Rules as a condition precedent to the Standard Agreement, and instead, the Board proposes to seek the Shareholders' advance approval for the grant of the Proposed Mandate at the EGM. In the event that there are changes in the principal terms of the Bid, the Equity Transfer Agreement I and the Equity Transfer Agreement II, the Company would seek the Shareholders' approval for the grant of the revised Proposed Mandate. It is expected that the result of the Bid will be published by Hangzhou Equity Exchange after the date of EGM and no later than the end of July 2023. Upon the release of the result of the Bid, the Company will issue an announcement in this respect.

## II. EQUITY TRANSFER AGREEMENT I

The principal terms of the Equity Transfer Agreement I are summarised below:

**Date**

31 May 2023

**Parties**

(1) Partnership (as purchaser); and

(2) Gongqing City (as vendor)

**Equity interest to be acquired**

Pursuant to the Equity Transfer Agreement I, the Partnership has conditionally agreed to purchase and Gongqing City has conditionally agreed to sell approximately 4.45% equity interest of the Target Company at the consideration of approximately RMB63.6 million.

**Consideration**

The consideration is approximately RMB63.6 million and shall be payable by the Partnership to Gongqing City in cash in the following manner:

(i) approximately RMB12.7 million, representing 20% of the consideration, shall be paid to Gongqing City's designated account within 15 days after fulfilment of all the conditions precedent; and

(ii) approximately RMB50.9 million, representing 80% of the consideration, shall be paid to Gongqing City's designated account within 90 days after fulfilment of all the conditions precedent, and on condition that approximately 4.45% equity interest of the Target Company having been transferred from Gongqing City to the Partnership.

**Basis of the consideration**

The consideration was determined after arm's length negotiations between the parties to the Equity Transfer Agreement I by taking into consideration various factors, including but not limited to (i) equivalent pricing represented by the minimum bidding price of the Public Tender of approximately RMB635.7 million for approximately 44.46% equity interest of the Target Company held by Hangzhou Heda; (ii) historical financial performance of the Target Company; (iii) the valuation prepared by an independent valuer in respect of the 100% equity interest of the Target Company with market value of approximately RMB1,444.2 million as at 31 December 2022 under market approach; (iv) the business development opportunity and prospects of the Target Company and the industry; and (v) the benefits to be derived by the Group upon the completion of the Possible Acquisitions as described under the section headed "REASONS AND BENEFITS OF THE PROPOSED MANDATE, THE POSSIBLE ACQUISITIONS AND THE LOAN AGREEMENT" in this letter.

**Conditions Precedent**

Completion of the Equity Transfer Agreement I is conditional upon fulfilment of the following conditions precedent:

(i) Equity Transfer Agreement II having been signed by the Partnership and Hangzhou Jingneng;

(ii) the Bid being won by the Partnership and completion of the Standard Agreement;

(iii) the approval by the Shareholders in respect of the Proposed Mandate, the Equity Transfer Agreement I and the Equity Transfer Agreement II and the transactions contemplated thereby at the EGM;

(iv) the approval by the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereby at the EGM; and

(v) having obtained the consent of the majority of other shareholders of the Target Company for completion of the Equity Transfer Agreement I and their renunciation of pre-emptive right to acquire the equity interest of the Target Company to be sold by Gongqing City under the Equity Transfer Agreement I.

If any of the above conditions precedent are not fulfilled within 180 days after the date of Equity Transfer Agreement I (or such later date as may be agreed in writing by the parties thereto), Equity Transfer Agreement I will be terminated forthwith and the parties thereto shall have no claim for loss or compensation against each other. As at the Latest Practicable Date, only condition (i) has been fulfilled.

**Completion**

The completion of the Equity Transfer Agreement I shall take place within 10 business days after the Partnership has paid 20% of the consideration to Gongqing City.

## III. EQUITY TRANSFER AGREEMENT II

The principal terms of the Equity Transfer Agreement II are summarised below:

**Date**

31 May 2023

**Parties**

(1) Partnership (as purchaser); and

(2) Hangzhou Jingneng (as vendor)

**Equity interest to be acquired**

Pursuant to the Equity Transfer Agreement II, the Partnership has conditionally agreed to purchase and Hangzhou Jingneng has conditionally agreed to sell approximately 2.09% equity interest of the Target Company at the consideration of approximately RMB29.9 million.

**Consideration**

The consideration of approximately RMB29.9 million shall be payable by the Partnership to Hangzhou Jingneng in cash within 180 days after fulfilment of all the conditions precedent and on condition that the equity interest to be transferred under the Equity Transfer Agreement II having been completed. In addition to the consideration of RMB29.9 million payable under the Equity Transfer Agreement II, an accrued interest shall be payable by the Partnership to Hangzhou Jingneng, which is calculated based on the consideration of approximately RMB29.9 million and the interest rate of 4.8% per annum for the period between the date of the Equity Transfer Agreement II and the date of full payment of the aforementioned consideration. Assuming the payment obligation under the

Equity Transfer Agreement II will be fulfilled on or before 30 September 2023 as expected by the Board, the maximum estimated total consideration would be approximately RMB30.4 million, including the consideration of approximately RMB29.9 million and accrued interest of approximately RMB0.5 million.

**Basis of the consideration**

The consideration was determined after arm's length negotiations between the parties to the Equity Transfer Agreement II by taking into consideration various factors, including but not limited to (i) equivalent pricing represented by the minimum bidding price of the Public Tender of approximately RMB635.7 million for approximately 44.46% equity interest of the Target Company held by Hangzhou Heda; (ii) historical financial performance of the Target Company; (iii) the valuation prepared by an independent valuer in respect of 100% equity interest of the Target Company with market value of approximately RMB1,444.2 million as at 31 December 2022 under market approach; (iv) the business development opportunity and prospects of the Target Company and the industry; and (v) the benefits to be derived by the Group upon the completion of the Possible Acquisitions as described under the section headed "REASONS AND BENEFITS OF THE PROPOSED MANDATE, THE POSSIBLE ACQUISITIONS AND THE LOAN AGREEMENT" in this letter.

Despite the total consideration per share under the Equity Transfer Agreement II, after taking into account of the accrued interest at 4.8% per annum, may be more than the consideration per share payable under the Bid and the Equity Transfer Agreement I, the Board considered it is fair and reasonable given (i) the amount of accrued interest is immaterial, representing approximately 1.6% of the consideration under the Equity Transfer Agreement II; (ii) the interest rate of 4.8% per annum is on normal commercial term; and (iii) such arrangement was determined after arm's length negotiations between the Partnership and Hangzhou Jingneng.

**Conditions Precedent**

Completion of the Equity Transfer Agreement II is conditional upon fulfilment of the following conditions precedent:

(i) Equity Transfer Agreement I having been signed by the Partnership and Gongqing City;

(ii) the Bid being won by the Partnership and completion of the Standard Agreement;

(iii) the approval by the Shareholders in respect of the Proposed Mandate, the Equity Transfer Agreement I and the Equity Transfer Agreement II and the transactions contemplated thereby at the EGM;

(iv) the approval by the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereby at the EGM; and

(v) having obtained the consent of the majority of other shareholders of the Target Company for completion of the Equity Transfer Agreement II and their renunciation of pre-emptive right to acquire the equity interest of the Target Company to be sold by Hangzhou Jingneng under the Equity Transfer Agreement II.

If any of the above conditions precedent are not fulfilled within 180 days after the date of Equity Transfer Agreement II (or such later date as may be agreed in writing by the parties thereto), Equity Transfer Agreement II will be terminated forthwith and the parties thereto shall have no claim for loss or compensation against each other. As at the Latest Practicable Date, only condition (i) has been fulfilled.

**Completion**

The completion of Equity Transfer Agreement II shall take place within 10 business days after fulfilment of the conditions precedent.

## IV. LOAN AGREEMENT

The principal terms of the Loan Agreement are summarised below:

**Date**

31 May 2023

**Parties**

(1) Xin Ke Xin (as lender); and

(2) Nanjing Zhangyu (as borrower)

**Principal amount**

RMB210,000,000, which shall be funded by the internal resources of the Group.

**Interest rate**

4.9% per annum. The interest rate was arrived at after arm's length negotiation between Xin Ke Xin and Nanjing Zhangyu and reflects the normal commercial rate.

**Purpose of the Loan**

The Loan will be lent to Nanjing Zhangyu and contributed to the Partnership for the sole purpose of funding the Possible Acquisitions.

**Term**

The term of the Loan shall be one year from the date of drawdown of the Loan.

**Conditions Precedent**

Drawdown of the Loan is subject to the following conditions precedent:

(i) Equity Transfer Agreement I having been signed by the Partnership and Gongqing City;

(ii) Equity Transfer Agreement II having been signed by the Partnership and Hangzhou Jingneng;

(iii) the approval by the Shareholders in respect of the Proposed Mandate, the Equity Transfer Agreement I and the Equity Transfer Agreement II and the transactions contemplated thereby at the EGM;

(iv) the approval by the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereby at the EGM; and

(v) the Bid being won by the Partnership and the Standard Agreement having been signed.

If any of the above conditions precedent are not fulfilled within 180 days after the date of the Loan Agreement (or such later date as may be agreed in writing by the parties thereto), the Loan Agreement will be terminated forthwith and the parties thereto shall have no claim for loss or compensation against each other. As at the Latest Practicable Date, conditions (i) and (ii) have been fulfilled.

**Drawdown**

Subject to fulfilment of the conditions precedent, the Loan shall be drawn down within 3 business days after Nanjing Zhangyu's issue of a drawdown notice to Xin Ke Xin.

**Repayment**

The outstanding principal amount of the Loan together with all accrued interests shall be repaid in one lump sum on the first anniversary of the date of drawdown of the Loan.

Mr. Peng Yinan will not provide any loan to Nanjing Zhangyu for funding the Possible Acquisitions, as Mr. Peng Yinan will be providing his expertise in managing Nanjing Zhangyu and its subsidiaries. The Board considered such arrangement is fair and reasonable given (i) such arrangement is a commercial decision arrived between Mr. Peng Yinan and the Company based on arms length negotiation; and (ii) the Loan Agreement is conducted on normal commercial terms and the interest rate is in line with the comparable loans offering to Nanjing Zhangyu in connection with the Possible Acquisitions.

## INFORMATION ABOUT THE PARTIES TO THE POSSIBLE ACQUISITIONS, THE PARTNERSHIP AGREEMENT AND THE LOAN AGREEMENT

The Company is an investment holding company. The Group is one of the leading manufacturers of integrated antennas and feeder cables for mobile communications in the PRC. Upon completion of acquisitions of Nanjing Zhangyu and Shanghai Zhangyu in mid-July 2022, the Group formed a new business segment of digital technology and digital security.

### Information of the Target Group

The Target Company is a company established under the PRC laws with limited liability and is owned as to approximately 44.46% by Hangzhou Heda, approximately 28.86% by Fuju Zhongguang, approximately 22.23% by Hangzhou Jingneng and approximately 4.45% by Gongqing City as at the Latest Practicable Date. As at the Latest Practicable Date, the interest in Fuju Zhongguang is owned as to (i) approximately 31.99% by Fuju Kunsheng, which is owned by 17 shareholders (each holds less than 30% of the equity interest of Fuju Kunsheng); (ii) approximately 25.42% by Ningbo Funeng Venture Capital Enterprise Partnership (Limited Partnership)* (寧波復能創業投資合夥企業(有限合夥), which is owned as to approximately 99.01% by Huzhou Wuxing Husheng Investment Consulting Co., Ltd.* (湖州吳興湖盛投資咨詢有限責任公司) (which is 100% ultimate beneficially owned by Huzhoushi Wuxingqu State-owned Assets Supervision and Administration Services Centre) and approximately 0.99% by Zhejiang Fuju Investment Management Co., Ltd.* (浙江復聚投資管理有限公司); (iii) approximately 15.41% by Cosin Solar; (iv) approximately 12.84% by Zhejiang Gaosheng, which is owned as to 75% by Cosin Solar and approximately 25% by 2 other shareholders (each holds less than 30% of the equity interest of Zhejiang Gaosheng); and (v) approximately 14.34% by 3 other shareholders (each holds less than 10% equity interest of Fuju Zhongguang). For the details of the shareholdings of other shareholders, please refer to the paragraph headed "Information of the vendors" in this circular.

The Target Company is an investment holding company which holds the entire equity interest in Qinghai Zhongkong and 75% equity interest in each of Gansu Yumen and Xinjiang Hami as at the Latest Practicable Date. The remaining 25% equity interest in each of Gansu Yumen and Xinjiang Hami is owned by Cosin Solar.

Qinghai Zhongkong, Gansu Yumen and Xinjiang Hami are companies established under the PRC laws with limited liability and principally engaged in the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology.

The Target Group possesses two core technologies, including (i) the solar thermal power generation technology which uses heliostat to gather sunlight and heat up molten salt to produce high temperature and high pressure steam to drive the turbine generator to generate electricity; and (ii) the molten salt energy storage technology which is widely used in the concentrated solar power ("**CSP**") industry and is considered as one of the most mature and safest technologies for high temperature heat storage. As at the Latest Practicable Date, the Target Group owns and operates two solar thermal molten salt energy storage power stations in the city of Delingha of Qinghai Province, with operational scales of 10MW and 50MW, respectively. Leveraging on its expertise on the solar thermal power generation and molten salt energy storage technology, the Target Group is expanding the consulting and management services to other power plants.

As at the Latest Practicable Date, the Target Group had 36 valid patents, of which 19 are invention patents and 17 are utility model patents, and 14 pending patent applications, all of which are invention patents. In addition, the Target Group had 5 computer software copyrights. The aforementioned patents and copyrights are primarily related to the technologies or hardware that are being used in the daily operation of the solar thermal molten salt energy storage power stations.

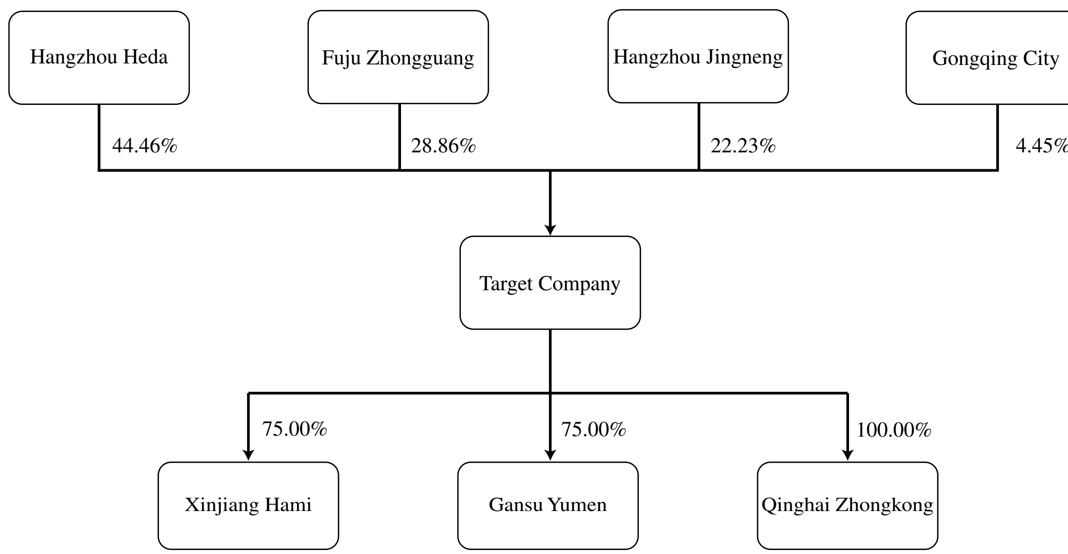
Set out below are the financial information of the Target Group as extracted from its audited consolidated financial statements for the two years ended 31 December 2022, which were prepared in accordance with the International Financial Reporting Standards:

| | **For the year ended 31 December 2021** | **For the year ended 31 December 2022** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Revenue | 107,534 | 152,991 |
| Profit before taxation | 7,573 | 50,069 |
| Profit after taxation | 4,473 | 45,352 |

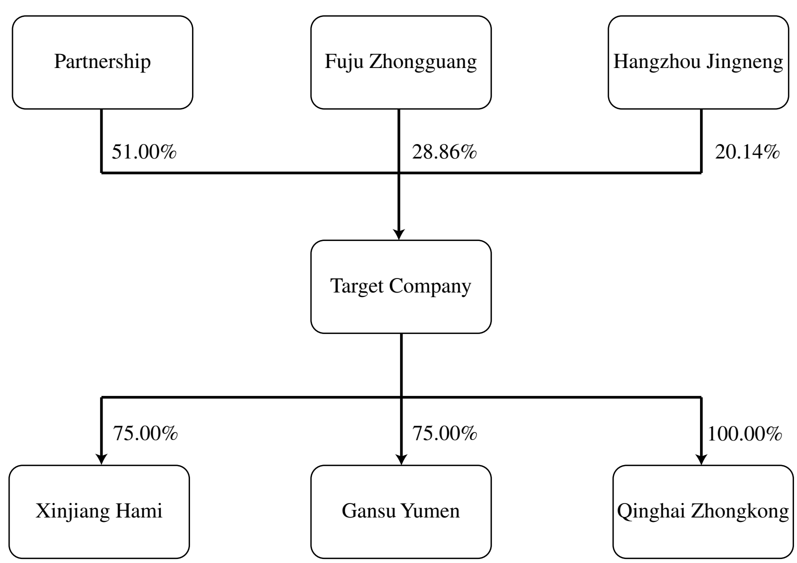
Based on the audited consolidated financial statement of Target Group, the net assets of Target Group as at 31 December 2022 were approximately RMB1,053.6 million. Upon Completions, the Group will hold 51% of the Target Company. The Target Company will then become an indirect non-wholly owned subsidiary of the Company and its financial statements will be consolidated into the Group's financial statements.

**The following diagrams depict the shareholding structures of the Target Group as at the Latest Practicable Date and immediately after the Completions:**

Shareholding structure of the Target Group as at the Latest Practicable Date:




Shareholding structure of the Target Group immediately after the Completions:




**Information of the vendors**

Hangzhou Heda is a company established under the PRC laws with limited liability and principally engaged in the provision of regional industrial financial services. As at the Latest Practicable Date, the equity interest in Hangzhou Heda is owned as to 100% by Hangzhou Qiantang New Area Industrial Development Group Co., Ltd, an entity under State-owned Assets Supervision and Administration Commission of Hangzhou People's Government.

Gongqing City is a partnership established under the PRC laws with limited liability and principally engaged in investment activities with its own funds. As at the Latest Practicable Date, the equity interest in Gongqing City is owned as to 25% by each of Li Guo Fan (李國藩), Liu Hao Hua (劉浩華), Qiu Ji Hong (邱繼紅) and Hu Xin Yan (胡昕炎).

Hangzhou Jingneng is a partnership established under the PRC laws with limited liability and principally engaged in enterprise management. As at the Latest Practicable Date, the equity interest in Hangzhou Jingneng is owned as to 90% by Ye Jing (葉進) and 10% by Jing Jian Xiang(金建祥).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Hangzhou Heda, Gongqing City and Hangzhou Jingneng and their ultimate beneficial owners are Independent Third Parties.

**Information of other parties involved**

Nanjing Zhangyu is a company established under the PRC laws with limited liability and principally engaged in the development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software, as well as technology consultation and technology services. As of the Latest Practicable Date, the equity interest in Nanjing Zhangyu is owned as to 51% indirectly by the Company and 49% indirectly by Mr. Peng Yinan, an executive Director and a connected person of the Company at the issuer level under the Listing Rules.

Cosin Solar is a company established under the PRC laws with limited liability and principally engaged in (i) the research of molten salt tower CSP technology; and (ii) the provision of CSP equipment and technical solutions for CSP plant construction. As at the Latest Practicable Date, the equity interest in Cosin Solar is owned as to (i) approximately 23.42% by Huzhou Yuri, whose equity interest is owned as to approximately 93.34% by Jing Jian Xiang (金建祥) and approximately 6.66% by 7 other shareholders (each holds less than 10% equity interest of Huzhou Yuri); (ii) approximately 11.16% by Xizi Clean, whose equity interest is owned as to approximately 39.01% by Xizi Elevator (which is owned as to approximately 55.63% by Mr. Wang Shui Fu (王水福) and approximately 44.37% by Ms. Chen Gui Hua (陳桂花)) and approximately 60.99% by 9 other shareholders (each holds less than 30% equity interest of Xizi Clean); and (iii) approximately 65.42% by 32 other shareholders (each holds less than 10% equity interest of Cosin Solar). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Cosin Solar (as the limited partner under the Partnership Agreement) and its ultimate beneficial owners are Independent Third Parties.

The Partnership is a partnership established pursuant to the Partnership Agreement under the PRC laws with limited liability. The purpose of establishing the Partnership is to engage in the Possible Acquisitions. If the Partnership fails to win the Bid or complete the Possible Acquisitions, the Partnership will be dissolved. Pursuant to the Partnership Agreement made between Nanjing Zhangyu as general partner and executive partner and Cosin Solar as limited partner:

(i) both partners shall share the profit and loss of the Partnership in proportion to their capital contributions to the Partnership;

(ii) if the Partnership is unable to pay its debt, Nanjing Zhangyu's collateral liability is unlimited whilst Cosin Solar's collateral liability is limited to the amount of its capital contribution to the Partnership;

(iii) as the executive partner, Nanjing Zhangyu is solely responsible for representing the Partnership to conduct the Partnership's affairs whereas Cosin Solar has the right to monitor Nanjing Zhangyu's performance of its duties;

(iv) Nanjing Zhangyu shall advance approximately RMB38.0 million and Cosin Solar shall advance RMB90.0 million as interest-free loans to the Partnership to enable the Partnership to pay the deposit of RMB128.0 million upon submission of the Bid;

(v) the interest-free loans advanced by the partners will become part of their capital contributions if the conditions for making capital contribution are fulfilled;

(vi) Nanjing Zhangyu and Cosin Solar have conditionally agreed to make RMB640.0 million and RMB90.0 million capital contributions to the Partnership respectively. They will only be required to make such capital contributions if (a) the Partnership successfully wins the Bid; and (b) Nanjing Zhangyu issues a capital contribution notice in accordance with the progress of the Possible Acquisitions; and

(vii) the Partnership is owned as to approximately 87.67% by Nanjing Zhangyu and approximately 12.33% by Cosin Solar, being the proportion of their conditionally agreed capital contributions.

On 28 April 2023, Nanjing Zhangyu advanced approximately RMB38.0 million and Cosin Solar advanced RMB90.0 million as interest-free loans to the Partnership before the Partnership submitted the Bid and the RMB128.0 million deposit to Hangzhou Equity Exchange.

Subject to fulfilment of the aforesaid conditions, it is expected that Nanjing Zhangyu and Cosin Solar will make their agreed capital contributions in full by stages by the end of 2030.

As (i) one of the conditions for Nanjing Zhangyu to commit to making capital contribution to the Partnership is the issue of a capital contribution notice by Nanjing Zhangyu, which Nanjing Zhangyu will only issue at its discretion and in accordance with the progress of the Possible Acquisitions; (ii) to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Cosin Solar and its ultimate beneficial owners are Independent Third Parties; and (iii) the applicable ratios in respect of the interest-free loan advanced by Nanjing Zhangyu to the Partnership are less than 5%, Nanjing Zhangyu's entering into of the Partnership Agreement per se without issuing the capital contribution notice does not constitute a transaction which is subject to any reporting, announcement, circular, Shareholders' approval or Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The capital contribution to be made by Nanjing Zhangyu will be funded by the Loan provided by Xin Ke Xin and internal resources of Nanjing Zhangyu.

Xin Ke Xin is a company established under the PRC laws with limited liability and its principal activity is investment holding. As of the Latest Practicable Date, Xin Ke Xin is an indirect wholly-owned subsidiary of the Company.

**REASONS FOR AND BENEFITS OF THE PROPOSED MANDATE, THE POSSIBLE ACQUISITIONS AND THE LOAN AGREEMENT**

According to the annual report of the Company for the year ended 31 December 2022, the Group's revenue for 2022 has increased by approximately 25.5% as compared with previous financial year, which is mainly attributable to the increase in revenue of the telecommunications business segment resulting from the successful tenders of several projects during the financial year. Nevertheless, on one hand, the prospect of the domestic PRC business environment of the telecommunications segment remains uncertain amid the poor macro-environment, and on the other hand, the overseas market continues to weaken due to the outbreak of the Russia-Ukraine war and the sanctions that are placed on Russia concurrently, which have led to a decrease of nearly US$10 million in export orders and an overall decline of approximately 15% in overseas sales during 2022. In view of (i) the business model of the core business of the Group which is heavily dependent on the investment in fixed assets in the telecommunications industry of the PRC; and (ii) the uncertainty of the macro environment which may further deteriorate the financial result of the overseas sales, the Company has been actively seeking investment targets with the aim to diversify the current business model and create new income stream.

Over the past years, the PRC government has been advocating for the adoption of renewable energy by releasing various policies and plans, such as (i) the "14th Five Year Plan" Implementation Plan for the Development of New Energy Storage, which greatly promotes the high-quality and large-scale development of new energy storage in order to accelerate the construction of a clean, low-carbon, safe and efficient energy system; and (ii) the 14th Five Year Plan for Renewable Energy, which targets a 50% increase in renewable energy generation from 2020 to 2025. Benefiting from the support of such policies and plans, the Target Group was able to achieve a solid financial return in the past few years and recorded audited net profit of approximately RMB45.4 million in 2022 with a compound annual growth rate of approximately 36.0% during the period from 2020 to 2022.

Further, followed by the Notice Related to Promoting the Large-scale Development of Solar Thermal Power issued by the China National Energy Administration, which heavily promote the planning and construction of solar thermal power projects, it is expected that the demand of resources for the operation and maintenance ("**O&M**") of solar power system would grow rapidly. Leveraging on the knowhow and expertise of the Target Group in operating two solar-thermal molten salt energy storage power stations in the city of Delingha of Qinghai Province, it is envisaged the same model can be replicated in other provinces in the PRC. Over the past years, the Target Group has developed a reliable O&M system for its self-owned solar thermal projects and targeted to tap into the O&M service market this year. As most solar thermal projects are large scale and located in remote and desolate areas with severe operation environment, the Target Group has experienced difficulties in lowering the O&M cost and improve the effectiveness of the O&M system under the current traditional management model that relies more on onsite monitoring and inspection. In order to implement new management model using automated and upgraded software system, the primary priority would be enhancing the security of the online operating systems that are currently adopted by the Target Group to avoid cyber security incidents given the nature of the infrastructure. In this regard, Nanjing Zhangyu, which is engaged in the provision of secure encryption related solutions or hardware, can provide relevant support to the Target Group and enhance the competitiveness of its O&M service. Further, the Company considered that, through the cooperation with the Target Group, the Group can also demonstrate to the market its capabilities on integrating secure encryption technology and hardware into a real-life solar thermal project, and thus develop and expand its track record of O&M service to independent solar thermal projects.

In 2023, the Group has involved in a solar energy project to build a photovoltaic power station for its own business operation. For further details of such project, please refer to the announcement of the Company dated 30 March 2023. Throughout the project, the Directors have enhanced their understandings of the solar energy industry from both the operational and construction perspectives. Apart from the Directors, one of the directors of Nanjing Zhangyu, namely Mr. Qin Keding ("**Mr. Qin**"), has over 12 years of experience in the field of power and renewable energy and has accumulated extensive experience in the investment and financing, construction and operation management of power and renewable projects. Mr. Qin previously served in Golden Concord Limited (Group) Holdings Co., Ltd., a global leading enterprise that focuses on renewable energy, as a senior management and primarily responsible for the investment, business development and capital operation. Mr. Qin obtained a diploma in thermal power and heating engineering for power systems from Shenyang Institute of Engineering (瀋陽工程學院) and a bachelor's degree in business administration from Dongbei University of Finance and Economics (東北財經大學). In addition, the Company intends to retain the current management of the Target Group, who have substantial industry experience and expertise for its daily operation, details of whom are set out in the paragraph headed "10. EMPLOYEES AND REMUNERATION POLICIES" in Appendix III to this circular.

As at the Latest Practicable Date, the Company has no intention to (i) enter into any shareholders' agreement with other shareholders of the Target Group after the Completions; (ii) dispose of, downsize or terminate any of its existing business; or (iii) further acquire interests in the Target Company upon the Completions.

Having considered (i) the continued uncertain business environment of the Company's core business in the PRC telecommunications industry and the overseas market; (ii) the solid financial results of the Target Group in recent financial years which can become a new income stream of the Group and contribute a steady cash flow to the Group; (iii) the positive outlook of the solar energy industry supported with various favourable policies and plans released by the PRC government; (iv) the synergy between the Target Group and Nanjing Zhangyu on the development of O&M service; (v) the factors that were taken into consideration during the determination of the consideration of the equity interest of Target Group; and (vi) the relevant experience of the Board and the senior management of the Group, the Board is of the view that the terms of the transactions contemplated under the Proposed Mandate, the Possible Acquisitions and the Loan Agreement were arrived at after arm's length negotiations among the parties, and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors confirmed that, save for Mr. Peng Yinan who has material interest in the Loan Agreement, none of the Directors had any material interest in the Proposed Mandate, the Possible Acquisitions and the Loan Agreement. Accordingly, Mr. Peng Yinan had abstained from voting on the Board resolutions approving the Loan Agreement.

**FINANCIAL EFFECTS OF THE POSSIBLE ACQUISITIONS**

Upon Completions, the Target Company will become an indirect non-wholly owned subsidiary of the Company and its financial statements will be consolidated into the Group's financial statements.

The Target Group's profit for the year for the three years ended 31 December 2022 were approximately RMB24.5 million, RMB4.5 million and RMB45.4 million. Should the Target Group sustain its profitability in the future, the Possible Acquisitions are expected to have positive impact on the Enlarged Group's earnings in the coming future. Based on the unaudited pro forma financial information of the Enlarged Group following the Possible Acquisitions as set out in Appendix IV to this circular, the net asset value is expected to increase mainly due to the net effect resulted from the consolidation of the assets and liabilities of the Target Group of RMB1,053.6 million as at 31 December 2022; the total assets of the Group following the Possible Acquisitions would increase from approximately RMB2,542.3 million to approximately RMB4,698.4 million, while the total liabilities of the Group following the Possible Acquisitions would increase from approximately RMB653.5 million to approximately RMB2,195.2 million.

The details of the financial effect of the Possible Acquisitions on the financial position together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in Appendix IV to this circular.

**LISTING RULES IMPLICATION**

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) on an aggregate basis exceeds 25% but is less than 100%, the Possible Acquisitions constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement, circular and Shareholders' approval requirements.

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the possible capital contribution of RMB640.0 million by Nanjing Zhangyu under the Partnership Agreement exceeds 25% but is less than 100%, such possible capital contribution under the Partnership Agreement when committed by Nanjing Zhangyu related to formation of the Partnership will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements.

Mr. Peng Yinan is an executive Director and a connected person of the Company at the issuer level under the Listing Rules. As Nanjing Zhangyu is held as to 51% indirectly by the Company and 49% indirectly by Mr. Peng Yinan, Nanjing Zhangyu is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules. Furthermore, as the Loan Agreement, subject to the conditions precedent set out therein, and the Previous Loan Agreement were a series of transactions entered into with the same party within a 12-month period, the Loan Agreement and the Previous Loan Agreement will be aggregated as if they were one transaction pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) on an aggregate basis exceeds 5% and exceeds HK$10,000,000, the transactions contemplated under the Loan Agreement and the Previous Loan Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements.

## INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Tam Chi Kwan Michael, Dr. Li Jun and Mr. Pu Hong, all of whom are independent non-executive Directors, has been established to advise the Independent Shareholders on the Loan Agreement and the transactions contemplated thereunder. Dakin Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

## EGM

Set out on pages EGM-1 to EGM-3 is a notice convening the EGM to be held at Unit 08, 43/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong on 19 July 2023 (Wednesday) at 11:00 a.m.. or any adjournment at which resolutions will be proposed to the Shareholders or the Independent Shareholders (as the case may be) to consider and, if thought fit, approve the Proposed Mandate, the Possible Acquisitions and the Loan Agreement and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular. If you are unable to attend the EGM, you are requested to complete and return the proxy form accompanying this circular in accordance with the instructions printed thereon appointing the chairman of the EGM as your proxy, to the Company's Principal Share Registrar in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632 (for Shareholders registered in Singapore), or to the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for Shareholders registered in Hong Kong) as soon as possible and in any event not later than forty-eight (48) hours before the time of the EGM (or at any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish and in such event, the form of proxy shall be deemed to be revoked.

Pursuant to Article 59 of the Constitution of the Company and Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by way of poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolutions to be proposed at the EGM will be voted by way of poll by the Shareholders or the Independent Shareholders (as the case may be).

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, Mr. Peng Yinan and his associates did no hold any Share. Therefore, no Shareholders or their respective associates have any material interest in the Proposed Mandate and the Possible Acquisitions or the Loan Agreement. No Shareholder is required to abstain from voting on the resolution to approve the transactions contemplated under the Proposed Mandate and the Possible Acquisitions. If Mr. Peng Yinan or any of his associates acquire any Share before the EGM, they will be required to abstain from voting on the resolution to approve the transactions contemplated under the Loan Agreement.

## RECOMMENDATION

The Directors (including the Independent Board Committee, having received and considered the advice from Dakin Capital) are of the opinion that terms of the Proposed Mandate, the Possible Acquisitions and the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and that the Possible Acquisitions and the transactions contemplated under the Proposed Mandate and the Loan Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Proposed Mandate, the Possible Acquisitions and the Loan Agreement and the transactions contemplated thereunder as set out in the notice of EGM enclosed to this circular.

## ADDITIONAL INFORMATION

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

**As the completions of the transactions contemplated under the Proposed Mandate, the Possible Acquisitions and the Loan Agreement are conditional upon fulfilment of the pre-conditions and conditions precedent set out therein, the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the equity securities of the Company.**

By Order of the Board
**Hengxin Technology Ltd.**
**Cui Wei**
*Chairman*

# HENGXIN TECHNOLOGY LTD.
# 亨鑫科技有限公司*

*(carrying on business in Hong Kong as HX Singapore Ltd.)*
*(incorporated in Republic of Singapore with limited liability)*
**(Stock Code: 1085)**

29 June 2023

*To: The Independent Shareholders*

Dear Sir or Madam,

## (1) MAJOR TRANSACTION IN RELATION TO POSSIBLE ACQUISITIONS; (2) CONNECTED TRANSACTION IN RELATION TO PROVISION OF LOAN TO A CONNECTED SUBSIDIARY; AND (3) NOTICE OF EGM

We refer to the circular of the Company dated 29 June 2023 (the "**Circular**") of which this letter forms part. Capitalised terms used herein will have the same meanings as defined in the Circular, unless the context requires otherwise.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms of the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and the Loan Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole. Dakin Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard.

Having considered the terms of the Loan Agreement and the advice of Dakin Capital in relation to the Loan Agreement as set out on pages 26 to 60 of this Circular, we are of the opinion that the terms of Loan Agreement and the transactions contemplated thereunder are fair and reasonable and the Loan Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

| **Mr. Tam Chi Kwan Michael** | **Dr. Li Jun** | **Mr. Pu Hong** |
| --- | --- | --- |
| *Independent non-executive Director* | *Independent non-executive Director* | *Independent non-executive Director* |

* *For identification purpose only*

*The following is the full text of the letter of advice from Dakin Capital Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.*

德健融資有限公司
DAKIN CAPITAL LIMITED

29 June 2023

*To: the Independent Board Committee and the Independent Shareholders*
*of Hengxin Technology Ltd.*

Dear Sirs,

## CONNECTED TRANSACTION IN RELATION TO PROVISION OF LOAN TO A CONNECTED SUBSIDIARY

### INTRODUCTION

We refer to our appointment as the independent financial adviser (the "**Independent Financial Adviser**") to the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 29 June 2023 (the "**Circular**"), of which this letter forms part. Reference is also made to the Company's announcement dated 31 May 2023 (the "**Announcement**"). Unless otherwise stated, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

On 31 May 2023 (after trading hours), Xin Ke Xin entered into the Loan Agreement with Nanjing Zhangyu, subject to the conditions precedent set out therein, Xin Ke Xin will provide the Loan to Nanjing Zhangyu in the principal amount of RMB210.0 million in cash, for a term of one year commencing from the date of drawdown of the Loan for the purpose of settling the consideration under the Possible Acquisitions.

As at the Latest Practicable Date, Mr. Peng Yinan is an executive Director and a connected person of the Company at the issuer level under the Listing Rules. As Nanjing Zhangyu is held as to 51% indirectly by the Company and 49% indirectly by Mr. Peng Yinan, Nanjing Zhangyu is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules.

Also, as the Loan Agreement, subject to the conditions precedent set out therein, and the Previous Loan Agreement were a series of transactions entered into with the same party within a 12-month period, the Loan Agreement and the Previous Loan Agreement will be aggregated as if they were one transaction pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) on an aggregate basis exceeds 5% and exceeds HK$10,000,000, the transactions contemplated under the Loan Agreement and the Previous Loan Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements.

Mr. Peng Yinan, who indirectly owns 49% shareholding in Nanjing Zhangyu, has a material interest in the Loan Agreement and has abstained from voting on the Board resolutions approving the Loan Agreement.

The Company will seek approval from the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder by way of a poll at the EGM. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, (i) Mr. Peng Yinan and his associates did not hold any Share; and (ii) no Shareholder or any of their respective associates have any material interest in the Loan Agreement. As such, no Shareholder is required to abstain from voting on the resolutions to approve, among others, the transactions contemplated under the Loan Agreement at the EGM. If Mr. Peng Yinan or any of his associates acquire any Share before the EGM, they will be required to abstain from voting on the resolutions to approve, among others, the transactions contemplated under the Loan Agreement at the EGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Tam Chi Kwan Michael, Dr. Li Jun and Mr. Pu Hong, has been formed to advise the Independent Shareholders on whether the terms of the Loan Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendation of the Independent Financial Adviser.

**OUR INDEPENDENCE**

We, Dakin Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. During the past two years immediately preceding the Latest Practicable Date, we did not act as the financial adviser or the independent financial adviser of the Company. Apart from normal professional fees for our services to the Company in connection with this engagement described above, no other arrangements exist whereby we will receive any fees and/or benefits from the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company, or its substantial Shareholders, Directors, chief executive, or any of their respective associates. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder.

**BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date.

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 Company. 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 consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, its subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Loan Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the fairness and reasonableness of the terms of the Loan Agreement and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Loan Agreement, we have considered the following principal factors and reasons:

### 1. Background information of the Group, the lender and the borrower

#### *1.1 The Group*

According to the Letter from the Board, the Group is one of the leading manufacturers of integrated antennas and feeder cables for mobile communications in the PRC. Upon completion of the acquisition of the Nanjing Zhangyu and Shanghai Zhangyu in mid-July 2022, the Group formed a new business segment of digital technology and digital security (the "**Digital Technology and Digital Security Segment**").

#### *1.2 The lender – Xin Ke Xin (Suzhou) Technology Co., Ltd.* (鑫科芯(蘇州)科技有限公司)*

As stated in the Letter from the Board, it is a company established under the PRC laws with limited liability and its principal activity is investment holding. As at the Latest Practicable Date, it is an indirect wholly-owned subsidiary of the Company.

### *1.3 The borrower – Nanjing Zhangyu Information Technology Co., Ltd.* (南京掌御信息科技有限公司)*

As stated in the Letter from the Board, it is a company established under the PRC laws with limited liability and principally engaged in the development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software, as well as technology consultation and technology services. As at the Latest Practicable Date, the equity interest in Nanjing Zhangyu is owned as to 51% indirectly by the Company and 49% indirectly by Mr. Peng Yinan, an executive Director and a connected person of the Company at the issuer level under the Listing Rules.

## 2. Financial information of the Group

The table below is the general financial information of the Group for the financial years ended 31 December 2021 and 2022 which are extracted from the Company's annual report 2022 (the "**Annual Report**").

**Summary of the consolidated financial results of the Group**

| | **For the year ended 31 December 2021 (audited)** *RMB$'000* | **For the year ended 31 December 2022 (audited)** *RMB$'000* |
|---|---|---|
| **Financial performance** | | |
| Revenue | | |
| Ratio frequency coaxial cables | 810,815 | 984,846 |
| Antennas | 337,910 | 450,982 |
| Telecommunication equipment and accessories | 387,518 | 427,949 |
| Digital technology and digital security | – | 94,218 |
| Others | 89,532 | 81,588 |
| Total revenue | 1,625,775 | 2,039,583 |
| | | |
| Gross profit | 296,558 | 375,525 |
| Profit for the year | 62,924 | 68,082 |

| | As at 31 December 2021 (audited) *RMB'000* | As at 31 December 2022 (audited) *RMB'000* |
|---|---|---|
| **Financial position** | | |
| Cash and cash equivalent | 546,919 | 881,561 |
| Total assets | 2,477,454 | 2,542,339 |
| Total liabilities | 690,283 | 653,509 |
| Net assets | 1,787,171 | 1,888,830 |

As stated in the Annual Report, the Company's revenue consists of radio frequency coaxial cables, antennas, telecommunication equipment and accessories, digital technology and digital security and other. The Group's total revenue for the financial year ended 31 December 2022 ("**FY2022**") increased by approximately RMB413.8 million, or approximately 25.5% from approximately RMB1,625.8 million in the previous financial year ended 31 December 2021 ("**FY2021**") to approximately RMB2,039.6 million in FY2022. According to the Annual Report and the Letter from the Board, such increase in the Group's total revenue for FY2022 was mainly attributable to the increase in revenue of the telecommunications business segment resulting from the successful tenders of several projects during FY2022.

The Company's revenue of radio frequency coaxial cables increased from approximately RMB810.8 million for FY2021 to approximately RMB984.8 million for FY2022, representing an increase of approximately 21.5%. According to the Annual Report and the management of the Company, such increase in revenue of radio frequency coaxial cables was mainly driven by (i) the Group's high effort on market exploration and the more competitive pricing strategy for feeder cables, resulting in the higher winning percentage of tender; and partially offset by (ii) the weak demand from customers of railway operators during FY2022, resulting in the decrease in revenue for leaky cables.

The Company's revenue of antennas increased from approximately RMB337.9 million for FY2021 to approximately RMB451.0 million for FY2022, representing an increase of approximately 33.5%. As stated in the Annual Report, such increase in the revenue from sales of antennas was mainly attributable to the Group's successful tender for the China Mobile Limited 700 MHz project.

The Company's revenue of telecommunication equipment and accessories increased from approximately RMB387.5 million for FY2021 to approximately RMB427.9 million for FY2022, representing an increase of approximately 10.4%. As stated in the Annual Report, the increase in the revenue from telecommunication equipment and accessories was in line with the general increase in the revenue of feeder cables.

After the completion of the acquisition of Nanjing Zhangyu and Shanghai Zhangyu in July 2022, the Digital Technology and Digital Security Segment contributed approximately RMB94.2 million of revenue to the Group during the second half of FY2022. As stated in the Annual Report, the revenue of Digital Technology and Digital Security Segment for FY2022 comprised design services of approximately RMB17.2 million, tape-out service of approximately RMB35.5 million, digital security of approximately RMB16.5 million, IP authorization of approximately RMB28.0 million and inter-company eliminations and others of approximately minus RMB3.0 million.

The Company's revenue of others decreased from approximately RMB89.5 million for FY2021 to approximately RMB81.6 million for FY2022, representing a decrease of approximately 8.8%. According to the Annual Report, the decrease in the revenue from others was mostly due to the decrease in revenue from high temperature resistant cables.

The Group's gross profit for FY2022 increased by approximately RMB79.0 million to approximately RMB375.5 million (FY2021: approximately RMB296.6 million). The Group's gross profit margin increased from approximately 18.2% for FY2021 to approximately 18.4% for FY2022, representing a slight increase of approximately 0.2 percentage point. As stated in the Annual Report and according to the management of the Company, such slight increase in the gross profit margin was mainly due to the combined effect of (i) the high gross profit margin of approximately 45.7% during the second half of FY2022 for the Digital Technology and Digital Security Segment; (ii) the slightly growth of gross profit margin from approximately 15.4% for FY2021 to 16.9% for FY2022 relating to the antennas segment because of the improved production efficiency during FY2022; (iii) the stable gross profit margin of approximately 25.1% (FY2021: approximately 25.2%) of the telecommunication equipment and accessories segment; and partially offset by (iv) the decrease in gross profit margin of approximately 2.9 percentage points to 14.0% during FY2022 for radio frequency coaxial cables (FY2021: as 16.9%) affected by the sluggish investment in fixed assets of telecommunication operators in the PRC, fierce market competition and stringent epidemic prevention and control measures made by the government of the PRC during FY2022.

The Group's profit for the year increased from approximately RMB62.9 million for FY2021 to approximately RMB68.1 million for FY2022, representing an increase of approximately 8.2%. Pursuant to the Annual Report and according to the management of the Company, such increase in profit was mainly due to the combined effect of (i) increase in revenue and gross profit recognised for FY2022; (ii) no impairment loss on trade receivables for FY2022 (FY2021: approximately RMB3.4 million); and partially offset by (iii) the increase in selling and distribution expenses and administrative expenses mainly for the staff related costs and legal and professional fees related to the acquisition of Nanjing Zhangyu and Shanghai Zhangyu during FY2022; (iv) the increase in other operating expenses mainly for the research and development expenses spent for the modifications and improvements to the Group's telecommunication products during FY2022 and the research and development undertaken by Nanjing Zhangyu and Shanghai Zhangyu during the second half of FY2022; and (v) the increase in interest expenses caused by the increase in average interest rates of short-term loans during FY2022.

As at 31 December 2022, the Group's cash and cash equivalent amounted to approximately RMB881.6 million, representing an increase of approximately 61.2% as compared with that of approximately RMB546.9 million as at 31 December 2021. As stated in the Annual Report and according to the management of the Company, the increase in the Group's cash and cash equivalent was mainly due to (i) the decrease in inventories and other contract costs from approximately RMB254.1 million as at 31 December 2021 to approximately RMB151.6 million as at 31 December 2022; and (ii) the decrease in net trade and bills receivables from approximately RMB902.8 million as at 31 December 2021 to approximately RMB666.1 million as at 31 December 2022. Total assets of the Group as at 31 December 2022 amounted to approximately RMB2,542.3 million whereas total liabilities of the Group amounted to approximately RMB653.5 million, resulting in a net assets position of approximately RMB1,888.8 million.

Having considered (i) the financial performance of the Group for FY2021 and FY2022 as stated above; (ii) the revenue contribution of approximately RMB94.2 million during the second half of FY2022 from the Digital Technology and Digital Security Segment after the completion of the acquisition of Nanjing Zhangyu and Shanghai Zhangyu in July 2022; and (iii) the reasons for and benefits of the entering of the Loan Agreement as stated in the paragraph headed "3. Reasons for and benefits of the Loan Agreement" below in this letter, we are of the view and concur with the view of the Directors that the entering of the Loan Agreement is in the interests of the Company and the Shareholders as a whole.

**3. Reasons for and benefits of the Loan Agreement**

***3.1 Historical financial performance of the Group and the Digital Technology and Digital Security Segment***

According to the Annual Report, the Group's revenue for FY2022 has increased by approximately 25.5% as compared with FY2021, which is mainly attributable to the increase in revenue of the telecommunications business segment resulting from the successful tenders of several projects during FY2022. Nevertheless, on one hand, the prospect of the PRC domestic business environment of telecommunications segment remains uncertain amid the poor macro-environment, and on the other hand, the overseas market continues to weaken due to the outbreak of the Russia-Ukraine war and the sanctions that are placed on Russia concurrently, which have led to a decrease of nearly US$10 million in export orders and an overall decline of approximately 15% in overseas sales during 2022. We are advised by the Directors that in view of (i) the business model of the core business of the Group is heavily dependent on the investment in fixed assets in the telecommunications industry of the PRC; and (ii) the uncertainty of the macro environment which may further deteriorate the financial result of the overseas sales, the Company has been actively seeking investment targets with the aim to diversify the current business model and create new income stream.

In light of this, we have further reviewed the Annual Report and noted that the Digital Technology and Digital Security Segment contributed approximately RMB94.2 million of revenue and approximately RMB27.5 million of segment profit before taxation to the Group during the second half of FY2022. According to the Annual Report, the gross profit margin for the Digital Technology and Digital Security Segment was approximately 45.7% during the second half of FY2022, which was higher than the other business segments of the Group. Pursuant to the Annual Report, as the Digital Technology and Digital Security Segment further develops and contributes to the Group on a full year basis after FY2022, the Group will be able to achieve higher overall gross profit margin going forward.

On 1 January 2023, Hengxin Metaverse Limited, a direct wholly-owned subsidiary of the Company as lessor, entered into the server leasing agreement with Shanghai Zhangyu as lessee in relation to the leasing of 90 high performance servers of the data centre located at 2 Dai Hei Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong at a consideration of monthly rent of HK$700,000, subject to an annual adjustment of not more than 5% for three years from 1 January 2023 to 31 December 2025 (the "**Server Leasing Agreement**"). As stated in the Company's announcement dated 1 January 2023, the entering of the Server Leasing Agreement can secure a fixed income stream from leasing the servers to Shanghai Zhangyu, which will ultimately sub-lease the cyberspace in the servers to its clients. At the same time, it is beneficial for Shanghai Zhangyu to directly provide services to its customers by using its proprietary cloud storage and cloud computing technology, with the aim to expand its scope of business and broaden its income stream. For details, please refer to the Company's announcement dated 1 January 2023.

On 12 January 2023, Zhangyu Smart IoT Identity Security Authentication Chip (PMSC2021 v1.0) which was researched and developed by Nanjing Zhangyu passed the test conducted by Commercial Cryptography Testing Center of National Cryptography Administration, and has been awarded commercial cryptographic product certification (the "**Zhangyu Smart Chip Certification**"). As stated in the Company's announcement dated 12 January 2023, (i) such awarded commercial cryptographic product certification of the chip would significantly enhance the Company's core competitiveness; and (ii) the Company plans to develop the Internet of Things ("**IoT**") security ecosystem around the Zhangyu Smart IoT Identity Security Authentication Chip, and work with smart IoT manufacturing partners to jointly build a secure Chinese IoT ecosystem and build a security barrier for China's IoT system. For details, please refer to the Company's announcement dated 12 January 2023.

On 28 April 2023, Xin Ke Xin, an indirect wholly-owned subsidiary of the Company as lender, entered into the Previous Loan Agreement with Nanjing Zhangyu as borrower, pursuant to which Xin Ke Xin agreed to provide a loan to Nanjing Zhangyu in the principal amount of RMB40 million for a term of one year commencing from the date of the Previous Loan Agreement. As stated in the Company's announcement dated 28 April 2023, the provision of such loan by Xin Ke Xin to Nanjing Zhangyu will enhance the cashflow and working capital of Nanjing Zhangyu and ensure Nanjing Zhangyu will be able to operate smoothly and further develop its business. For details, please refer to the Company's announcement dated 28 April 2023.

Based on (i) the historical financial performance of the Group and the Digital Technology and Digital Security Segment as discussed above; (ii) the contribution of revenue, gross profit and segment profit before taxation made by Nanjing Zhangyu and Shanghai Zhangyu of the Digital Technology and Digital Security Segment during the second half of FY2022; (iii) the entering of the Server Leasing Agreement would broaden the Group's revenue base; (iv) the Zhangyu Smart Chip Certification recognised the technical know-how of Nanjing Zhangyu and enhance the Company's core competitiveness; and (v) the financial support from Xin Ke Xin would enable Nanjing Zhangyu to operate the Digital Technology and Digital Security Segment smoothly, we concur with the Directors' view that the development of the Digital Technology and Digital Security Segment can diversify the current business model of the Group and broaden the Group's income stream.

### *3.2 The relationship between the Possible Acquisitions and the Loan Agreement*

On 24 March 2023, Hangzhou Heda, being the largest shareholder of the Target Company, announced to sell approximately 44.46% equity interest in the Target Company, being all of the equity interest it holds in the Target Company through the Public Tender on the Hangzhou Equity Exchange.

On 4 April 2023, the Partnership was established pursuant to the Partnership Agreement under the PRC laws with limited liability. As stated in the Letter from the Board, (i) the purpose of establishing the Partnership is to engage in the Possible Acquisitions; and (ii) if the Partnership fails to win the Bid or complete the Possible Acquisitions, the Partnership will be dissolved. For the principal terms of the Partnership Agreement, please refer to the sub-paragraph headed "Information of other parties involved" under the paragraph headed "Information about the parties to the Possible Acquisitions, the Partnership Agreement and the Loan Agreement" in the Letter from the Board.

As stated in the Letter from the Board, on 28 April 2023, Nanjing Zhangyu advanced RMB38 million and Cosin Solar advanced RMB90.0 million as interest-free loan to the Partnership, before the Partnership submitted the Bid and RMB128.0 million deposit to Hangzhou Equity Exchange (the "**Bid Deposit**"). As stated in the Announcement, (i) if the Partnership successfully wins the Bid, the deposit will be used to offset part of the consideration payable under the Standard Agreement; and (ii) if the Partnership does not win the Bid, the deposit will be returned to the Partnership without interest. As stated in the Letter from the Board, subject to fulfilment of the conditions set out in the Partnership Agreement, it is expected that Nanjing Zhangyu and Cosin Solar will make their agreed capital contributions in full by stages by the end of 2030.

As stated in the Announcement, on 31 May 2023 (after trading hours),

(i) the Board has resolved to seek Shareholders' approval on the Proposed Mandate that, upon successful winning of the Bid and subject to the pre-conditions set out in the Standard Agreement, (a) the Company proposes to acquire, through the Partnership, approximately 44.46% equity interest of the Target Company from Hangzhou Heda at the consideration of approximately RMB635.7 million; and (b) Nanjing Zhangyu proposes to issue the capital contribution notice under the Partnership Agreement;

(ii) the Partnership and Gongqing City entered into the Equity Transfer Agreement I, pursuant to which the Partnership has conditionally agreed to acquire, and Gongqing City has conditionally agreed to sell approximately 4.45% equity interest of the Target Company at the consideration of approximately RMB63.6 million;

(iii) the Partnership and Hangzhou Jingneng entered into the Equity Transfer Agreement II, pursuant to which the Partnership has conditionally agreed to acquire, and Hangzhou Jingneng has conditionally agreed to sell approximately 2.09% equity interest of the Target Company at the consideration of approximately RMB29.9 million; and

(iv) Xin Ke Xin entered into the Loan Agreement with Nanjing Zhangyu, subject to the conditions precedent set out therein, Xin Ke Xin will provide the Loan to Nanjing Zhangyu in the principal amount of RMB210.0 million in cash, for a term of one year commencing from the date of drawdown of the Loan for the purpose of settling the considerations under the Possible Acquisitions.

According to the Announcement, (i) both the Equity Transfer Agreement I and the Equity Transfer Agreement II are inter-conditional and subject to the successful winning of the Bid; (ii) the Group will hold approximately 51% of the Target Company upon Completions; and (iii) upon the Completions, the Target Company will then become an indirect non-wholly owned subsidiary of the Company and its financial statements will be consolidated into the Group's financial statements.

As advised by the Directors, the consideration payable under the Standard Agreement, the Equity Transfer Agreement I and the Equity Transfer Agreement II, in aggregate of approximately RMB729.2 million (the "**Consideration**") and the transaction expense of approximately RMB1.5 million, will be satisfied by the internal resources of the Partnership by way of capital contributions by Nanjing Zhangyu and Cosin Solar pursuant to the Partnership Agreement and bank borrowings.

According to the Directors, the table below is the detailed plan of source of fund for the Bid/ Standard Agreement, the Equity Transfer Agreement I and the Equity Transfer Agreement II (the "**Source of Fund Table**"):

| | **Bid Deposit** *RMB'million approximate* | **The Loan** *RMB'million approximate* | **Bank borrowing by the Partnership** *RMB'million approximate* | **Total** *RMB'million approximate* |
|---|---|---|---|---|
| The Consideration | 126.5 | 210.0 | 392.7 | 729.2 |
| Transaction expense of the Bid | 1.5 | – | – | 1.5 |
| **Total** | **128.0** | **210.0** | **392.7** | **730.7** |

As shown in the above table, we noted that the source of fund of the Consideration comprised the Bid Deposit, the Loan and bank borrowing by the Partnership, out of which the principal amount of RMB210.0 million in cash under the Loan Agreement would be used as part of payment for the Consideration, representing approximately 28.8% of the Consideration.

### *3.3 Information of the Possible Acquisitions*

Since the Loan would be used as part of the payment for the Consideration under the Possible Acquisitions, we have obtained and reviewed the information of the Possible Acquisitions, including but not limited to the background information of the parties involved and the information of the Target Group. Also, we have obtained and reviewed the principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement which are discussed in the paragraph headed "4. Principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement" below in this letter.

### *3.3(a) Background information of the parties involved in the Possible Acquisitions*

*The general partner/executive partner of the Partnership – Nanjing Zhangyu Information Technology Co., Ltd.* (南京掌御信息科技有限公司)*

Please refer to the sub-paragraph headed "1.3. The borrower – Nanjing Zhangyu Information Technology Co., Ltd.* (南京掌御信息科技有限公司)" under the paragraph headed "1. Background information of the Group, the lender and the borrower" above in this letter.

*The limited partner of the Partnership – Cosin Solar Technology Co., Ltd. (浙江可勝技術股份有限公司)*

As stated in the Letter from the Board, it is a company established under the PRC laws with limited liability and principally engaged in the research of molten salt tower concentrated solar power ("**CSP**") technology and the provision of CSP equipment and technical solutions for CSP plant construction. As at the Latest Practicable Date, the equity interest in Cosin Solar is owned as to

(i) approximately 23.42% by Huzhou Yuri, whose equity interest is owned as to approximately 93.34% by Jing Jian Xiang (金建祥) and approximately 6.66% by 7 other shareholders (each holds less than 10% equity interest of Huzhou Yuri);

(ii) approximately 11.16% by Xizi Clean, whose equity interest is owned as to approximately 39.01% by Xizi Elevator (which is owned as to approximately 55.63% by Wang Shui Fu (王水福) and approximately 44.37% by Chen Gui Hua (陳桂花) and approximately 60.99% by 9 other shareholders (each holds less than 30% equity interest of Xizi Clean); and

(iii) approximately 65.42% by 32 other shareholders (each holds less than 10% equity interest of Cosin Solar).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Cosin Solar (as the limited partner under the Partnership Agreement) and its ultimate beneficial owners are Independent Third Parties.

*The Partnership – Hangzhou Longkong Zhongguang Enterprise Holding Enterprise Partnership (Limited Partnership)* (杭州龍控中光企業控股合夥企業(有限合夥))*

Please refer to the sub-paragraph headed "3.2. The relationship between the Possible Acquisitions and the Loan Agreement" above in this paragraph and the sub-paragraph headed "Information of other parties involved" under the paragraph headed "Information about the parties to the Possible Acquisitions, the Partnership Agreement and the Loan Agreement" in the Letter from the Board.

*The vendor of the Bid/Standard Agreement – Hangzhou Heda Financial Services Co., Ltd.* (杭州和達金融服務有限公司)*

As stated in the Letter from the Board, it is a company established under the PRC laws with limited liability and principally engaged in the provision of regional industrial financial services. As at the Latest Practicable Date, the equity interest in Hangzhou Heda is owned as to 100% by Hangzhou Qiantang New Area Industrial Development Group Co., Ltd* (杭州錢塘新區產業發展集團有限公司), an entity under State-owned Assets Supervision and Administration Commission of Hangzhou People's Government* (杭州市人民政府國有資產監督管理委員會).

*The vendor of the Equity Transfer Agreement I – Gongqing City Shengmei Investment Management Enterprise Partnership (Limited Partnership)* (共青城盛美投資管理合夥企業(有限合夥))*

As stated in the Letter from the Board, it is a partnership established under the PRC laws with limited liability and principally engaged in investment activities with its own funds. As at the Latest Practicable Date, the equity interest in Gongqing City is owned as to 25% by each of Li Guo Fan (李國藩), Liu Hao Hua (劉浩華), Qiu Ji Hong (邱繼紅) and Hu Xin Yan (胡昕炎).

*The vendor of the Equity Transfer Agreement II – Hangzhou Jingneng Huichu Enterprise Management Enterprise Partnership (Limited Partnership)* (杭州淨能慧儲企業管理合夥企業(有限合夥))*

As stated in the Letter from the Board, it is a partnership established under the PRC laws with limited liability and principally engaged in enterprise management. As at the Latest Practicable Date, the equity interest in Hangzhou Jingneng is owned as to 90% by Ye Jing (葉進) and 10% by Jing Jian Xiang (金建祥).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Hangzhou Heda, Gongqing City and Hangzhou Jingneng and their ultimate beneficial owners are Independent Third Parties.

***3.3(b) Information of the Target Group***

According to the Letter from the Board, the Target Company is a company established under the PRC laws with limited liability and is owned as to approximately 44.46% by Hangzhou Heda, approximately 28.86% by Fuju Zhongguang, approximately 22.23% by Hangzhou Jingneng and approximately 4.45% by Gongqing City as at the Latest Practicable Date.

For details of the shareholding structures of the Target Group as at the Latest Practicable Date and immediately after the Completions, please refer to the paragraph headed "Information about the parties to the Possible Acquisitions, the Partnership Agreement and the Loan Agreement" in the Letter from the Board.

Pursuant to the Letter from the Board, the Target Company is an investment holding company which holds the entire equity interest in Qinghai Zhongkong and 75% equity interest in each of Gansu Yumen and Xinjiang Hami as at the Latest Practicable Date. The remaining 25% equity interest in each of Gansu Yumen and Xinjiang Hami is owned by Cosin Solar. Qinghai Zhongkong, Gansu Yumen and Xinjiang Hami are companies established under the PRC laws with limited liability and principally engaged in the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology (the "**Solar Thermal Energy Industry**"). The Target Group has two core technologies, including (i) the solar thermal power generation technology which uses heliostat to gather sunlight and heat up the molten salt to produce high temperature and high-pressure steam to drive the turbine generator to generate electricity; and (ii) the molten salt energy storage technology which is widely used in the CSP industry and is considered as one of the most mature and safest technologies for high temperature heat storage.

As at the Latest Practicable Date, the Target Group owns and operates two solar-thermal molten salt energy storage power stations in the city of Delingha of Qinghai Province, with operational scales of 10MW and 50MW, respectively. As stated in the Letter from the Board, leveraging on its expertise on the solar thermal power generation and molten salt energy storage technology, the Target Group is expanding the consulting and management services to other power plants.

Pursuant to the Letter from the Board, as at the Latest Practicable Date, the Target Group had (i) 36 valid patents, of which 19 are invention patents and 17 are utility model patents; (ii) 14 pending patent applications, all of which are invention patents; and (iii) 5 computer software copyrights. According to the Letter from the Board, such patents and copyrights as mentioned above are primarily related to the technologies or hardware that are being used in the daily operation of the solar thermal molten salt energy storage power stations.

*3.3(c) Financial information of the Target Group*

The audited key financial information of the Target Group for the years ended 31 December 2021 and 2022, which were prepared in accordance with the Hong Kong Standard on Auditing issued by the Hong Kong Institute of Certified Public Accountant by KPMG, are extracted and set out below (please refer to the section headed "Appendix II Financial information of the Target Group" in the Circular for detailed information):

| | For the year ended 31 December 2021 (audited) *RMB'000* | For the year ended 31 December 2022 (audited) *RMB'000* |
|---|---|---|
| **Financial performance** | | |
| Revenue | 107,534 | 152,991 |
| Profit before taxation | 7,573 | 50,069 |
| Profit after taxation | 4,473 | 43,352 |
| | **As at 31 December 2021 (audited)** *RMB'000* | **As at 31 December 2022 (audited)** *RMB'000* |
| **Financial position** | | |
| Total assets | 1,764,743 | 1,809,836 |
| Total liabilities | 756,484 | 756,225 |
| Net assets | 1,008,259 | 1,053,611 |

The Target Group's total revenue for FY2022 increased by approximately RMB45.5 million, or approximately 42.3% from approximately RMB107.5 million for FY2021 to approximately RMB153.0 million in FY2022. According to the section headed "Appendix III Management discussion and analysis of the Target Group" in the Circular, such increase was mainly attributable to the increase in revenue generated from the solar thermal power generation business as one of its power plants reach its annual design power generation capacity in 2022.

The Target Group's profit before taxation increased from approximately RMB7.6 million for FY2021 to approximately RMB50.1 million for FY2022, representing an increase of approximately 561.2%. The Target Group's profit after taxation increased from approximately RMB4.5 million for FY2021 to approximately RMB43.4 million for FY2022, representing an increase of approximately 869.2%. As stated in the section headed "Appendix III Management discussion and analysis of the Target Group" in the Circular, such substantial increase was mainly attributable to the significant increase of revenue generated from the solar thermal power generation business of Qinghai Zhongkong.

Total assets of the Target Group as at 31 December 2022 amounted to approximately RMB1,809.8 million whereas total liabilities of the Group amounted to approximately RMB756.2 million, resulting in a net assets position of approximately RMB1,053.6 million.

Based on the above, we noted that the Target Group was profit-making and in net assets positions for FY2021 and FY2022.

***3.3(d) The PRC government policies on emerging energy industry***

Pursuant to the Letter from the Board, over the past years, the PRC government has been advocating for the adoption of renewable energy by releasing various policies and plans, such as (i) the "14th Five Year Plan" Implementation Plan for the Development of New Energy Storage* (「十四五」新型儲能發展實施方案) jointly issued by National Development and Reform Commission* (中華人民共和國國家發展和改革委員會) ("**NDRC**") and National Energy Administration* (國家能源局) ("**NEA**") on 21 March 2022, which greatly promotes the high-quality and large-scale development of new energy storage in order to accelerate the construction of a clean, low-carbon, safe and efficient energy system; and (ii) the 14th Five Year Plan for Renewable Energy* (「十四五」可再生能源發展規劃) jointly issued by NDRC, NEA and seven government departments of the PRC on 1 June 2022, which targets a 50% increase in renewable energy generation from 2020 to 2025.

We have also reviewed the Implementation Plan for Promoting High-quality Development of Energy in the New Era* (促進新時代能源高質量發展實施方案) jointly issued by NDRC and NEA on 30 May 2022, which improved the policies and measures in seven aspects, including innovation in the development and utilization model, establishment of the new power systems such as solar thermal power and pumped-storage hydro-power, the deepening in the management of the Streamline administration, Delegating power, Strengthening regulation and Improve services Reform* (放管服改革), support the healthy development of the industry, guarantee the reasonable demand for space, comprehensive implementation of the ecological environment protection such as the development of solar energy, geothermal energy and biomass energy and improvement of the fiscal and financial policies so as to support the development of emerging energy industry.

Benefiting from the support of such policies and plans, the Target Group was able to achieve a solid financial return in the past few years and recorded audited net profit of approximately RMB45.4 million in 2022 with a compound annual growth rate of approximately 36.0% during the period from 2020 to 2022. For further financial information and discussion of the Target Group, please refer to the sections headed "Appendix II Financial information of the Target Group" and "Appendix III Management discussion and analysis of the Target Group" in the Circular.

Further, followed by the Notice Related to Promoting the Large-scale Development of Solar Thermal Power* (關於推動光熱發電規模化發展有關事項的通知) issued by the NEA on 20 March 2023, which heavily promote the planning and construction of solar thermal power projects, it is expected that the demand of resources for the operation and maintenance ("**O&M**") of solar power system would grow rapidly. Pursuant to the Letter from the Board,

(i) leveraging on the knowhow and expertise of the Target Group in operating two solar thermal molten salt energy storage power stations in the city of Delingha of Qinghai Province, it is envisaged the same model can be replicated in other provinces in the PRC; and (ii) over the past years, the Target Group has developed a reliable O&M system for its self-owned solar thermal projects and targeted to tap into the O&M service market this year.

***3.3(e) Views of the Directors and the management of the Company***

In light of this, we have discussed with the management of the Company and be advised that

(i) as most solar thermal projects are large scale and located in remote and desolate areas with severe operation environment, the Target Group has experienced difficulties in lowering the O&M cost and improve the effectiveness of the O&M system under the current traditional management model that relies more on onsite monitoring and inspection;

(ii) in order to implement new management model using automated and upgraded software system, the primary priority would be enhancing the security of the online operating systems that are currently adopted by the Target Group to avoid cyber security incidents given the nature of the infrastructure;

(iii) Nanjing Zhangyu, which is engaged in the provision of secure encryption related solutions or hardware, can provide relevant support to the Target Group and enhance the competitiveness of its O&M service;

(iv) through the Possible Acquisitions, the Group would be able to diversify the Group's business and expand the income stream; and

(v) through the cooperation with the Target Group, the Group can also demonstrate to the market its capabilities on integrating secure encryption technology and hardware into real-life solar thermal project, and thus develop and expand its track record of O&M service to independent solar thermal projects.

***3.3(f) Experience of the Directors and the management of the Company in emerging energy industry***

We have also discussed with the management of the Company on their experience in emerging energy industry and be advised that

(i) the Group has involved in a solar energy project to build a photovoltaic power station for its own business operation in 2023 (the "**Photovoltaic Power Station Project**") (For details, please refer to the Company's announcement dated 30 March 2023);

(ii) throughout the Photovoltaic Power Station Project, the Directors have enhanced their understandings of the solar energy industry from both the operational and construction perspectives;

(iii) apart from the Directors, one of the directors of Nanjing Zhangyu, namely Mr. Qin Keding ("**Mr. Qin**"), has over 12 years of experience in the field of power and renewable energy and has accumulated extensive experience in the investment and financing, construction and operation management of power and renewable projects. Mr. Qin previously served in Golden Concord Holdings Limited, a global leading enterprise that focuses on renewable energy, as a senior management and primary responsible for the investment, business development and capital operation. Mr. Qin obtained a diploma in thermal power and heating engineering for power systems from Shenyang Institute of Engineering* (瀋陽工程學院) and obtained a bachelor's degree in business administration from Dongbei University of Finance and Economics* (東北財經大學); and

(iv) the Company intends to retain the current management of the Target Group, who have substantial industry experience and expertise for its daily operation, details of whom are set out in the paragraph headed "10. Employees and remuneration policies" under the section headed "Appendix III Management discussion and analysis of the Target Group" to the circular.

For the detailed information of the Bid, the Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement, please refer to the paragraphs headed "I. Bid", "II. Equity Transfer Agreement I", "III. Equity Transfer Agreement II" and the sub-paragraph headed "Information of other parties involved" under the paragraph headed "Information about the parties to the Possible Acquisitions, the Partnership Agreement and the Loan Agreement" respectively in the Letter from the Board.

***3.4 Our view***

Taking into account (i) the continued uncertain fierce business environment of the Company's core business in the PRC telecommunication industry and the overseas market; (ii) the reasons for and benefits of the entering of the Loan Agreement; (iii) the historical financial performance of Digital Technology and Digital Security Segment operated by Nanjing Zhangyu and Shanghai Zhangyu; (iv) the Target Group was profit-making and in net assets positions for FY2021 and FY2022; (v) the positive outlook of Solar Thermal Energy Industry supported with various favourable policies and plans released by the PRC government; (vi) the synergy between the Target Group and Nanjing Zhangyu on the development of O&M service; (vii) the principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement are fair and reasonable as discussed in the paragraph headed "4. Principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement" below in this letter; and (viii) the relevant experience of the Board and the senior management of the Group, we concur with the view of the Directors that the Loan Agreement supports Nanjing Zhangyu to complete the Possible Acquisitions so as to diversify the current business model of the Group and broaden the Group's revenue base and cash flow sources, which is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## 4. Principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement

### *4.1 Assets to be acquired*

Pursuant to the Bid/Standard Agreement, the Company proposes to acquire, through the Partnership, approximately 44.46% equity interest of the Target Company from Hangzhou Heda at the consideration of approximately RMB635.7 million.

Pursuant to the Equity Transfer Agreement I, the Partnership has conditionally agreed to acquire, and Gongqing City has conditionally agreed to sell approximately 4.45% equity interest of the Target Company at the consideration of approximately RMB63.6 million.

Pursuant to the Equity Transfer Agreement II, the Partnership has conditionally agreed to acquire, and Hangzhou Jingneng has conditionally agreed to sell approximately 2.09% equity interest of the Target Company at the consideration of approximately RMB29.9 million.

According to the Letter from the Board, (i) the Group will hold approximately 51% of the Target Company upon Completions; and (ii) upon the Completions, the Target Company will then become an indirect non-wholly owned subsidiary of the Company and its financial statements will be consolidated into the Group's financial statements.

### *4.2 The Consideration*

The Consideration is approximately RMB729.2 million. According to the Letter from the Board and the management of the Company, the Consideration was arrived at after arm's length negotiations between the parties of the Bid/Standard Agreement, the Equity Transfer Agreement I and the Equity Transfer Agreement II on normal commercial terms and with reference to the following basis:

*The Bid/Standard Agreement*

The Bid price of approximately RMB635.7 million is determined by the Board with reference to (i) the minimum bidding price of the Public Tender of approximately RMB635.7 million as published by Hangzhou Heda on the website of Hangzhou Equity Exchange; (ii) the historical financial performance of the Target Company; (iii) the valuation prepared by an independent valuer in respect of the 100% equity interest of the Target Company with market value of approximately RMB1,444.2 million as at 31 December 2022 under market approach; (iv) the business development opportunity and prospects of the Target Company and the industry; and (v) the benefits to be derived by the Group upon the Completions as described under the paragraph headed "Reasons and benefits of the Proposed Mandate, the Possible Acquisitions and the Loan Agreement" in the Letter from the Board.

*Equity Transfer Agreement I*

The consideration was determined after arm's length negotiations between the parties to the Equity Transfer Agreement I by taking into consideration various factors, including but not limited to (i) equivalent pricing represented by the minimum bidding price of the Public Tender of approximately RMB635.7 million for approximately 44.46% equity interest of the Target Company held by Hangzhou Heda; (ii) the historical financial performance of the Target Company; (iii) the valuation prepared by an independent valuer in respect of the 100% equity interest of the Target Company with market value of approximately RMB1,444.2 million as at 31 December 2022 under market approach; (iv) the business development opportunity and prospects of the Target Company and the industry; and (v) the benefits to be derived by the Group upon the Completions as described under the paragraph headed "Reasons and benefits of the Proposed Mandate, the Possible Acquisitions and the Loan Agreement" in the Letter from the Board.

*Equity Transfer Agreement II*

The consideration was determined after arm's length negotiations between the parties to the Equity Transfer Agreement II by taking into consideration various factors, including but not limited to (i) equivalent pricing represented by the minimum bidding price of the Public Tender of approximately RMB635.7 million for approximately 44.46% equity interest of the Target Company held by Hangzhou Heda; (ii) the historical financial performance of the Target Company; (iii) the valuation prepared by an independent valuer in respect of 100% equity interest of the Target Company with market value of approximately RMB1,444.2 million as at 31 December 2022 under market approach; (iv) the business development opportunity and prospects of the Target Company and the industry; and (v) the benefits to be derived by the Group upon the Completions as described under the paragraph headed "Reasons and benefits of the Proposed Mandate, the Possible Acquisitions and the Loan Agreement" in the Letter from the Board.

*Business valuation of the Target Group*

We have reviewed the report of the business valuation prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**Valuer**"), an independent valuer, as set out in Appendix V to the Circular and noted that the fair value of 100% equity interest in the Target Group as at 31 December 2022 was approximately RMB1,444.2 million. For details, please refer to the valuation report included in the section headed "Appendix V Valuation report on the Target Group's equity interest" to the Circular (the "**Valuation Report**").

We have complied with all the requirements under note (1)(d) to Rule 13.80 of the Listing Rules, in particular, discussed with the Valuer about the expertise of the person signing the Valuation Report, namely, Mr. Simon M.K. Chan. After discussion with Mr. Simon M.K. Chan, we noted that he (i) is a member and registered valuer of The Royal Institution of Chartered Surveyors and a registered Certified Public Accountant of Hong Kong Institute of Certified Public Accountants; and (ii) has over 20 years of valuation, transaction advisory and project consultancy experience of company equity valuation in Hong Kong, the PRC and

Singapore. We consider that the responsible person of the Valuer for the Valuation Report has relevant qualification as well as sufficient experience in performing the valuation. The Valuer also confirmed that all relevant material information provided by the Company had been incorporated in the Valuation Report and there were no other material relevant information or representations relating to the Possible Acquisitions provided or made by the Company to it not having been included in the Valuation Report. We have reviewed the terms of engagement letter and scope of work of the Valuer, and consider that such engagement is on normal commercial terms and the scope of the Valuer's work is appropriate in conducting the valuation. Furthermore, as at the Latest Practicable Date, the Valuer has confirmed that they do not have (i) any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) any direct or indirect interest in any assets which had been, since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group. Therefore, we consider that the Valuer is independent and has adequate qualification and experience in performing the valuation.

We have discussed with the Valuer in respect of the methodology of, and the bases and assumptions adopted for the valuation and adjustments made to arrive at the valuation of the Target Group. We noted that the Valuation Report was prepared by the Valuer in compliance with the International Valuation Standards issued by International Valuation Standards Council. We also noted that the Valuer had considered three methodologies in preparing the Valuation Report.

(i) Cost approach

As stated in the Valuation Report, (i) cost approach considers the cost to reproduce or replace in new condition of the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes; (ii) cost approach generally furnishes the most reliable indication of value for assets without a known secondary market; and (iii) despite the simplicity and transparency of the cost approach, it does not directly incorporate information about the economic benefits contributed by the subject assets. However, the Valuer is of the opinion that cost approach does not directly incorporate information about the economic benefits contributed by the Target Group, thus cost approach is inappropriate for valuing the Target Group.

(ii) Income approach

As stated in the Valuation Report, income approach (i) is the conversion of expected periodic benefits of ownership into an indication of value; (ii) is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile; (iii) allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows; (iv) relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs; and (v) presents a single scenario only. As advised by the Valuer, the income approach is not the most optimal approach as it involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained. As such, the Valuer has not adopted the income approach in the view that other valuation approach (i.e. market approach) is more adoptable and practicable.

(iii) Market approach

As stated in the Valuation Report, (i) market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative; (ii) assets for which there is an established secondary market may be valued by market approach; (iii) benefits of using market approach include its simplicity, clarity, speed and the need for few or no assumptions; (iv) market approach also introduces objectivity in application as publicly available inputs are used. However, the Valuer also advised that (i) one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets; (ii) market approach is also difficult to find comparable assets; and (iii) market approach relies exclusively on the efficient market hypothesis.

Furthermore, the Valuer advised that (i) there are two common methods under market approach, namely, guideline public companies method and guideline transaction method; and (ii) they have considered guideline public companies method which requires identifying suitable guideline public companies and selection of appropriate trading multiples and guideline transaction method which takes reference to recent merger and acquisitions between unrelated parties and ratio of transaction price to Target Group's financial metrics. As advised by the Valuer, since there is lack of sufficient recent market transactions with similar nature as the Target Group, the guideline transaction method is not adopted. On the other hand, the Valuer is of the view that they can adopt the guideline public companies method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple.

Given that (i) cost approach does not directly incorporate information about the economic benefits contributed by the Target Group; (ii) income approach is not the most optimal approach as it involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained; (iii) there is lack of sufficient recent market transactions with similar nature as the Target Group to conduct the guideline transaction method under the market approach; and (iv) the research of public information of comparable companies' benchmark multiples and selection of an appropriate multiple can be found and the market approach adopting the guideline public companies method derived from the market prices and financial data of listed companies in a similar business can reflect the prevailing market value of the Target Group, we concur with the Valuer's view that the market approach using the guideline public companies method from similar companies is the most preferred approach for the valuation of the Target Group.

As advised by the Valuer, in order to establish a fair valuation on a target, it is a common practice for valuation using market approach to include both large scale and small scale companies with a similar business model to a target. We consider that the inclusion of large scale and small scale companies in the comparables can give a comprehensive valuation which reflects the general situation in the industry of the business of the Target Group. As such, nothing has come to our attention that appraising the Target Group with companies with different scales is not fair and reasonable.

We noted that the Valuer had considered four benchmark multiples, including price to earnings ratio ("**P/E ratio**"), price to book ratio ("**P/B ratio**"), price to sales ratio and enterprise value to sales ratio ("**P/S & EV/S ratio**") and enterprise value to earning before interest, tax, depreciation and amortisation ratio ("**EV/EBITDA ratio**"). However, the Valuer advised that (i) P/E ratio does not capture the financial leverage and other related risk feature across the companies; (ii) P/B ratio fails to capture the intangible company-specific competencies and advantages so in general, the equity's book value has little bearing with its fair value; and (iii) P/S & EV/S does not take into account a company's profitability, thus P/E ratio, P/B ratio and P/S & EV/S ratio are not selected as benchmark multiples in valuing the Target Group. The Valuer further advised that EV/EBITDA ratio (i) is suitable for profitable companies and can factor in differences in balance sheet positions between the subject and the comparable companies; (ii) is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses; and (iii) can compare the Target Group against the comparable companies without considering how each comparable company finances its operations. As discussed with the Valuer, we are given to understand that EV/EBITDA ratio is commonly employed for valuing companies principally engaged in the supply of electricity with a focus on production and sales of solar power, and so the Target Group, and taking the median of EV/EBITDA ratio of comparable companies can provide an objective valuation of the Target Group.

According to the Valuation Report, the Valuer have applied the following assumptions as at 31 December 2022 in deriving the market value of the 100% equity interest in the Target Group:

(i) there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Group;

(ii) the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;

(iii) the facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge; and

(iv) the Valuer have assumed that there are no hidden or unexpected conditions associated with the Target Group that might adversely affect the reported values. Further, the Valuer assume no responsibility for changes in market conditions after 31 December 2022.

In order to assess the fairness and reasonableness of the assumptions adopted by the Valuer in the valuation, we have also discussed with the Valuer and given to understand that they have taken into account the information of the Target Group and the principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement when adopting the assumptions mentioned above. Based on our discussion with the Valuer, and review of the legal opinion issued by the Company's PRC legal adviser and the principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement, nothing has come to our attention that the assumptions adopted by the Valuer in the valuation are not fair and reasonable.

We also discussed with the Valuer regarding the selection criteria of the market comparables for the business valuation of the Target Group. Based on the section criteria made by the Valuer, we noted that the Valuer has formed an exhaustive list of five comparable public companies which (i) are publicly listed on the Stock Exchange; (ii) have been listed on the Stock Exchange no fewer than six months; (iii) derive most of their revenues from the operation of solar power station; (iv) derive most of their revenues from the operation in the PRC; (v) have sufficient data, including EV/EBITDA ratio available as at 31 December 2022. From the comparables list as stated in the Valuation Report, we noted that the comparables companies are listed on the Stock Exchange, mainly derive most of their revenue from the operation of solar power station and derive most of their revenue from the operation in the PRC. We consider that the selection criteria of the comparables can effectively reflect the industry of the solar power business of listed companies in the Hong Kong stock market based on their financial information as at 31 December 2022. As such, nothing has come to our attention that the selection criteria of the comparables are not representative, fair and reasonable.

Furthermore, the Valuer advised that (i) the comparable companies are often of significantly different size from the Target Group; (ii) larger companies are generally perceived as less risky in relation to business operation and financial performance, and thus the expected returns are lower and resulting in higher multiples. Therefore, the Valuer are of the view that the base multiples of EV/EBITDA ratio were adjusted to reflect the difference in size between the comparable companies and the Target Group (the "**Adjusted EV/EBITDA ratio**"), which include the scale factor, the ratio of the equity value to the enterprise value of the comparable company and the required adjustment in the equity discount rate for difference in size. For details of the Adjusted EV/EBITDA ratio and the factors to be considered which include their logic behind the formula, please refer to the paragraph headed "Market multiple" of the Valuation Report. We have discussed with the Valuer and be advised that it is common practice to take into account the above mentioned factors and make adjustments to the EV/EBITDA ratio of comparable companies in reflecting the difference in size between the comparable companies and the Target Group. Nothing has come to our attention that the adjustments made by the Valuer on those EV/EBITDA ratio of comparable companies are unusual.

Set out below is the summary of the comparable companies selected by the Valuer:

| No. | Name of company | Stock code | Adjusted EV/ EBITDA ratio |
|---|---|---|---|
| 1. | Kong Sun Holdings Limited | 295 | 47.88 |
| 2. | Beijing Energy International Holding Co., Ltd. | 686 | 13.66 |
| 3. | Shandong Hi-Speed New Energy Group Limited | 1250 | 9.99 |
| 4. | Xinyi Energy Holdings Limited | 3868 | 7.89 |
| 5. | Shunfeng International Clean Energy Limited | 1165 | 21.27 |
| | | Median | 13.66 |

The calculation regarding the valuation of the Target Group is set out as follows:

| | | |
|---|---|---|
| Enterprise value of the Target Group | = | EBITDA of the Target Group x median of adjusted EV/EBITDA ratio of comparable companies |
| | = | RMB106,795,000 x 13.66 |
| | = | RMB1,458,465,771 |
| 100% equity interest in the Target Group (marketable, non-controlling) | = | Enterprise value of the Target Group + Cash and cash equivalents – Preferred equity – Minority interest – Borrowing debt and lease liabilities |
| | = | RMB1,458,465,771 + 569,859,000 – 0 – 1,436,000 – 629,489,000 |
| | = | RMB1,397,399,771 |

As shown in the above table, we noted that the fair value of 100% equity interest in the Target Group (marketable, non-controlling) as at 31 December 2022 is RMB1,397,399,771.

As stated in the Valuation Report, (i) a control premium and discount for lack of control are applied to reflect differences between the comparables and the subject asset with regard to the ability to make decision; and (ii) a control premium is defined as the additional consideration that an investor would pay over a marketable minority equity value in order to own a controlling interest in the common stock of a company. The Valuer considered that the Group proposes to acquire approximately 51% equity interest of the Target Group, thus a control premium is applied. As advised by the Valuer and according to a research study named "Mergerstat Control Premium Study (4th Quarter 2022)" published by FactSet Mergerstat, LLC which is adopted by the Valuer, a control premium of 22.6% is adopted in valuing the Target Group. The Valuer are of the view that the aforesaid research study published by

FactSet Mergerstat, LLC is a widely accepted sources among valuers. Apart from the above research study, we have also referenced to another widely adopted research study named "Value of Corporate Control: Some International Evidence" written by Paul Hanouna, Atulya Sarin and Alan C. Shapiro. According to the aforementioned research study written by Paul Hanouna, Atulya Sarin and Alan C. Shapiro, the median control premium is 30.0%. Having considered that the control premium of 22.6% applied by the Valuer is relatively low, we consider that applying 22.6% of control premium to the valuation of the Target Group is prudent, conservative and reasonable.

As stated in the Valuation Report, marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds; (ii) there is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers; (iii) all other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable; and (iv) an interest in a private-held company is worth less because no established market exists. The Valuer advised that the discount for lack of marketability ("**DLOM**") is generally adopted to adjust the value of investment which is a privately held company while the benchmark multiples applied in valuation is calculated from public listed companies, which represents marketable ownership interest. As further discussed with the Valuer and according to the research study named "Stout Restricted Stock Study Companion Guide (2022 edition)" issued by Stout Risius Ross, LLC which is adopted by the Valuer, the DLOM of 15.7% is adopted in valuing the Target Group. The Valuer are of the view that the aforesaid research study issued by Stout Risius Ross, LLC represents the most widely used and accepted database available to valuators for DLOM determination. Apart from the above research study, we have also referenced to another widely adopted research study named "Determining Discounts for Lack of Marketability: A Companion Guide to The FMV Restricted Stock Study" published by FMV Opinions, Inc. and we noted that the median DLOM ranges from 15.03% to 16.11%. Having considered that the DLOM of 15.7% applied by the Valuer is within such range, we consider that applying 15.7% of the DLOM to the valuation of the Target Group is reasonable.

As a result, taking into account the control premium and the DLOM, the fair value of the Target Group as at 31 December 2022 is approximately RMB1,444.2 million and accordingly the fair value of approximately 51% of equity interest of the Target Group is RMB736.5 million.

Based on our review on the valuation of the Target Group and its calculation together with our discussion with the Valuer as detailed above, we consider that the valuation of the Target Group is fair and reasonable. As the fair value of approximately 51% equity interest of the Target Group as at 31 December 2022 is approximately RMB736.5 million and at a slight premium over the Consideration of approximately RMB729.2 million, we consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *4.3 The additional accrued interest of 4.8% per annum payable under the Equity Transfer Agreement II*

Pursuant to the Equity Transfer Agreement II, in addition to the consideration of RMB29.9 million payable under the Equity Transfer Agreement II, an accrued interest shall be payable by the Partnership to Hangzhou Jingneng, which is calculated based on the consideration of approximately RMB29.9 million and the interest rate of 4.8% per annum for the period between the date of the Equity Transfer Agreement II and the date of full payment of the aforementioned consideration. In light of this, we have discussed with the management of the Company and be advised that they have assumed the payment obligation under the Equity Transfer Agreement II will be fulfilled on or before 30 September 2023, and thus the maximum estimated total consideration would be approximately RMB30.4 million, including the consideration of approximately RMB29.9 million and accrued interest of approximately RMB0.5 million (Formula: RMB29.9 million x 4.8% x 122/365 days).

Despite the total consideration per share under the Equity Transfer Agreement II, after taking into account of the accrued interest at 4.8% per annum, may be more than the consideration per share payable under the Bid and the Equity Transfer Agreement I, the Board considered it is fair and reasonable given (i) the amount of accrued interest is immaterial, representing approximately 1.6% of the consideration under the Equity Transfer Agreement II; (ii) the interest rate of 4.8% per annum is on normal commercial term; and (iii) such arrangement was determined after arm's length negotiations between the Partnership and Hangzhou Jingneng.

After considering (i) the amount of accrued interest is immaterial, representing approximately 1.6% and 0.07% of the consideration under the Equity Transfer Agreement II and the Consideration after taking into account of the accrued interest under the Equity Transfer Agreement II respectively; (ii) the Target Group was profit-making and in net assets positions for FY2021 and FY2022; (iii) the valuation of approximately 51% equity interest in the Target Group is fair and reasonable as discussed above in this paragraph; and (iv) the benefits to be derived by the Group upon the completion of the Possible Acquisitions as discussed in the paragraph headed "3. Reasons for and benefits of the Loan Agreement" above in this letter, we are of the view and concur with the Directors' view that the total consideration under the Equity Transfer Agreement II is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *4.4 The Partnership Agreement*

Pursuant to the Partnership Agreement made between Nanjing Zhangyu as general partner and executive partner and Cosin Solar as limited partner and the Letter from the Board,

(i) the purpose of establishing the Partnership is to engage in the Possible Acquisitions;

(ii) if the Partnership fails to win the Bid or complete the Possible Acquisitions, the Partnership will be dissolved;

(iii) Nanjing Zhangyu shall advance approximately RMB38.0 million and Cosin Solar shall advance RMB90.0 million as interest-free loan to the Partnership to enable the Partnership to pay the deposit of RMB128.0 million upon submission of the Bid;

(iv) the interest-free loan advanced by the partners will become part of their capital contributions if the conditions for making capital contribution are fulfilled; and

(v) Nanjing Zhangyu and Cosin Solar have conditionally agreed to make RMB640.0 million and RMB90.0 million capital contributions to the Partnership respectively. They will only be required to make such capital contributions if (a) the Partnership successfully wins the Bid; and (b) Nanjing Zhangyu issues a capital contribution notice in accordance with the progress of the Possible Acquisitions;

Further details of the Partnership Agreement are set out in the sub-paragraph headed "Information of other parties involved" under the paragraph headed "Information about the parties to the Possible Acquisitions, the Partnership Agreement and the Loan Agreement" in the Letter from the Board.

Pursuant to the Letter from the Board, the purpose of establishing the Partnership is to engage in the Possible Acquisitions. We have also reviewed all the other terms of the Partnership Agreement in respect of the Partnership and are not aware of any terms which are unfair and unreasonable to the Company. Having also considered

(i) the Target Group was profit-making and in net assets positions for FY2021 and FY2022 as discussed in the sub-paragraph headed "3.3(c) Financial information of the Target Group" under the paragraph headed "3. Reasons for and benefits of the Loan Agreement" above in this letter;

(ii) the positive outlook of Solar Thermal Energy Industry supported with various favourable policies and plans released by the PRC government as discussed in the sub-paragraph headed "3.3(d) The PRC government policies on emerging energy industry" under the paragraph headed "3. Reasons for and benefits of the Loan Agreement" above in this letter;

(iii) the synergy between the Target Group and Nanjing Zhangyu on the development of O&M service as discussed in the sub-paragraph headed "3.3(e) Views of the Directors and the management of the Company" under the paragraph headed "3. Reasons for and benefits of the Loan Agreement" above in this letter;

(iv) the relevant experience of the Board and the senior management of the Group on the Target Group's business as discussed in the sub-paragraph headed "3.3(f) Experience of the Directors and the management of the Company in emerging energy industry" under the paragraph headed "3. Reasons for and benefits of the Loan Agreement" above in this letter, and

(v) the principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I and the Equity Transfer Agreement II are fair and reasonable as discussed in this paragraph,

we concur with the view of the Directors that the principal terms of the Partnership Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**5. Principal terms of the Loan Agreement**

Set out below are the principal terms mentioned in the Loan Agreement:

| | |
|---|---|
| Date: | 31 May 2023 |
| Parties: | (1) Xin Ke Xin (as lender); and<br>(2) Nanjing Zhangyu (as borrower) |
| Principal amount: | RMB210,000,000, which shall be funded by the internal resources of the Group. |
| Interest rate: | 4.9% per annum. The interest rate was arrived after arm's length negotiation between Xin Ke Xin and Nanjing Zhangyu and reflects the normal commercial rate. |
| Purpose of the Loan: | The Loan will be lent to Nanjing Zhangyu and contributed to the Partnership for the sole purpose of funding the Possible Acquisitions. |
| Term: | The term of the Loan shall be one year from the date of drawdown of the Loan. |
| Repayment: | The outstanding principal amount of the Loan together with all accrued interests shall be repaid in one lump sum on the first anniversary of the date of drawdown of the Loan. |

For further detailed terms of the Loan Agreement, such as the conditions precedents, please refer to the paragraph headed "IV. Loan Agreement" in the Letter from the Board.

In order to assess the fairness and reasonableness of the terms of the Loan Agreement, we have reviewed the relevant provision of financial assistance of other companies listed on the Stock Exchange (the "**Loan Comparables**") as announced during the preceding twelve months prior to and including 31 May 2023, being the date of the Loan Agreement and identified an exhaustive list of five Loan Comparables which (i) have a single loan size from RMB100 million to RMB1,000 million; (ii) are denominated in Renminbi dollars; (iii) with pre-fixed interest rates as at the date of the respective agreements; and (iv) has term to maturity of not more than one year. We consider that a review period of twelve months can represent the recent and general reference of market terms for granting of loans under the recent market condition and sentiment. However, given the differences between the listed issuers in the Loan Comparables and the Group in terms of business nature, financial performance, financial position and the use of loan, we consider that the Loan Comparables might not constitute an absolute close reference.

Details of the Loan Comparables are set out below:

| No. | Name of company | Stock code | Date of initial announcement/ agreement | Maximum loan amount *RMB'000* | Interest rate per annum *(%)* | With security | Maturity *(Year(s))* | Repayment clause |
|---|---|---|---|---|---|---|---|---|
| 1. | China Travel International Investment Hong Kong Limited | 308 | 2 August 2022 | 210,000 | 4.35 | No | 1.00 | One lump-sum repayment of outstanding principal and accrued interest at maturity |
| 2. | Shanghai Industrial Holdings Limited | 363 | 26 September 2022 | 800,000 | 4.35 | No | 1.00 | One lump-sum repayment of outstanding principal and accrued interest at maturity |
| 3. | Datang Group Holdings Limited | 2117 | 26 October 2022 | 350,000 | 6.00 | No | 1.00 | One lump-sum repayment of outstanding principal and accrued interest at maturity |
| 4. | China Everbright Limited | 165 | 30 November 2022 | 539,000 | 3.65 | No | 0.25 | One lump-sum repayment of outstanding principal and accrued interest at maturity |
| 5. | Sun Art Retail Group Limited | 6808 | 23 May 2023 | 100,000 | 3.65 | No | 1.00 | One lump-sum repayment of outstanding principal and accrued interest at maturity |
| | | | | Average | 4.40 | | 0.85 | |
| | | | | Maximum | 6.00 | | 1.00 | |
| | | | | Minimum | 3.65 | | 0.25 | |
| | The Company | 1085 | 31 May 2023 | 210,000 | 4.90 | No | 1.00 | One lump-sum repayment of outstanding principal and accrued interest at maturity |

*Source: Website of the Stock Exchange (http://www.hkex.com.hk)*

***5.1 Interest rate per annum***

As shown in the above table, the interest rate of the Loan Comparables range from 3.65% to 6.00%, with an average interest rate of approximately 4.40%. Given the interest rate of 4.9% for the Loan is above the average interest rate and within the range of the Loan Comparables, we consider that the interest rate of the Loan is justifiable.

***5.2 Security***

As shown in the above table, there is no collateral or guarantee requirement for the Loan Agreement. We noted that all the Loan Comparables are also without any collateral or guarantee requirement. Also, Xin Ke Xin and Nanjing Zhangyu, the parties involved in the Loan Agreement are the indirect subsidiaries of the Company, representing the provision of financial assistance within the Group. We consider that no collateral or guarantee requirement of the Loan is justifiable.

***5.3 Maturity***

As shown in the above table, the terms of the Loan Comparables range from 0.25 year to 1.00 year with an average of approximately 0.85 year. We noted that four out of five Loan Comparables with the maturity of loans are also one year. Nothing has come to our attention that one year maturity of the Loan is not on normal commercial terms.

***5.4 Repayment clause***

According to the terms of the Loan Agreement, the outstanding principal amount of the Loan together with all accrued interests shall be repaid in one lump sum on the first anniversary of the date of drawdown of the Loan. As shown in the above table, all the Loan Comparables also repay of their loans in one lump-sum of outstanding principal and accrued interest at maturity. Nothing has come to our attention that the repayment clause of the Loan is not on normal commercial terms.

***5.5 Our view***

Based on the above and taking into account that (i) the Loan Agreement supports Nanjing Zhangyu to complete the Possible Acquisitions so as to diversify the current business model of the Group and broaden the Group's revenue base and cash flow sources as discussed in the paragraph headed "3. Reasons for and benefits of the Loan Agreement" above in this letter; (ii) the use of proceeds from the Loan has been earmarked as part of the Consideration; and (iii) other financing alternatives may not be feasible as discussed in the paragraph headed "6. Other financing alternatives" below in this letter, we are of the view and concur with the view of the management of the Company that the terms of the Loan Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

**6. Other financing alternatives**

As discussed with the Directors, the Board has considered alternative fund-raising and payment method before entering into the Loan Agreement.

According to the Directors, based on the instability of recent financial market, it is not easy for the Company to appoint placing agent/underwriter to underwrite the fund-raising exercises, such as placing of new Shares, open offer and rights issue. We noted that the closing price of Hang Seng Index dropped from approximately 20,145 points on 3 January 2023 to approximately 18,234 points on 31 May 2023 (i.e. date of the Loan Agreement), representing a decrease of approximately 9.5%.

Also, as advised by the Directors, although both open offer and rights issue would allow the Shareholders to participate in the subscription of new Shares and maintain their respective pro-rata shareholdings in the Company, it would incur additional costs such as underwriting commission, documentation costs of filing of a prospectus and the printing and handling of application forms and other professional fees than that of the Loan Agreement and take a relatively longer timeframe of more than three months from the dispatch of the prospectus to commencement of dealing in the offer shares or rights shares (as the case may be) when compared to the Loan Agreement.

Furthermore, the Company also considered the issue of consideration shares as an alternative method to settle the Consideration. However, according to the Directors, (i) the Public Tender of the Bid has a fixed requirement to pay the consideration in cash; (ii) it is a commercial decision after arm's length negotiations between the Partnership and Gongqing City to pay the consideration for the Equity Transfer Agreement I in cash; and (iii) it is a commercial decision after arm's length negotiations between the Partnership and Hangzhou Jingeng to pay the consideration for the Equity Transfer Agreement II in cash. Also, the management of the Company confirmed that the Possible Acquisitions and the Loan Agreement are inter-conditional upon each other. If the Loan Agreement is not approved by the Independent Shareholders, the Possible Acquisitions will not proceed.

In arriving our view that the entering of the Loan Agreement is the most suitable way available to the Company, we have also considered the Group's financial resources and cashflow position. We have obtained and reviewed the Company's annual report 2019, 2020, 2021 and 2022 and the Group's unaudited consolidated management account for the four months ended 30 April 2023 (the "**Group's Management Account**").

Based on our review of the Group's Management Account and the source of fund as required for the Possible Acquisitions (please refer to the Source of Fund Table set out in the sub-paragraph headed "3.2. The relationship between the Possible Acquisitions and the Loan Agreement" under the paragraph headed "3. Reasons for and benefits of the Loan Agreement" for detailed information above in this letter), we are advised by the management of the Company that the Group had consolidated cash at bank and in hand and time deposits of approximately RMB1,114.8 million as at 30 April 2023 which have been taken into account of the advancement of RMB38 million from Nanjing Zhangyu under the Bid Deposit. Based on the Source of Fund Table and taking into account (i) assuming the Loan would be fully drawdown before 31 December 2023; and (ii) the management of the Company further advised that the remaining of the source of fund of approximately RMB392.7 million as required for the Possible Acquisitions would be borrowed from the bank or financial institution by the Partnership, the Group's consolidated cash at bank and in hand and time deposits available for the Group's general working capital purpose would be reduced to approximately RMB904.8 million.

We also note from the Company's annual report 2019, 2020, 2021 and 2022 that the Group had net cash generated from operations (except for FY2021) of approximately RMB184.0 million, RMB101.8 million, RMB378.0 million and RMB478.4 million for the year ended 31 December 2018, 2019, 2020 and 2022, whereas the Group had an individual case of cash used in operation of approximately RMB305.7 million for the year ended 31 December 2021 which is mainly due to the increase in inventories of the Group's expectation for increase in demand for its products and trade and other receivables of the slower settlement by customers as affected by COVID-19. In light of the above, nothing has come to our attention that (i) the advance of the Loan would place material adverse financial effect on the Group's operations; and (ii) the Group has the immediate need for fund-raising before granting of the Loan.

We have also obtained and reviewed Nanjing Zhangyu's unaudited consolidated management account for the four months ended 30 April 2023 (the "**Nanjing Zhangyu's Management Account**"). Based on the Source of Fund Table and considering the advice from the management of the Company that (i) the advancement of RMB38 million from Nanjing Zhangyu has been paid; and (ii) the remaining of the source of fund of approximately RMB392.7 million as required for the Possible Acquisitions would be borrowed from the bank or financial institution by the Partnership, Nanjing Zhangyu has the immediate funding need of approximately RMB210.0 million for the Possible Acquisitions. Based on our review of Nanjing Zhangyu's Management Account, we noted that Nanjing Zhangyu had consolidated cash at bank and in hand of approximately RMB15.2 million which have been taken into account of the advancement of RMB38 million from Nanjing Zhangyu under the Bid Deposit, representing a shortage of approximately RMB194.8 million.

As stated in the Letter from the Board, Mr. Peng Yinan, another ultimate beneficial shareholder of Nanjing Zhangyu, will not provide any loan to Nanjing Zhangyu for funding the Possible Acquisitions. We have also considered that Nanjing Zhangyu is a private company established under the PRC laws with limited liability and is unable to conduct public equity fund-raising. In light of the above, without the granting of the Loan from Xin Ke Xin, it would be difficult for Nanjing Zhangyu to have adequate and immediate source of fund for fulfilling the initial payment arrangements of the Possible Acquisitions.

Pursuant to the Loan Agreement, the outstanding principal amount of the Loan together with all accrued interests shall be repaid in one lump sum on the first anniversary of the date of drawdown of the Loan. According to the management of the Company, the principal terms of the Loan Agreement (including no collateral and guarantee requirement) were determined after arm's length negotiations between Xin Ke Xin and Nanjing Zhangyu. Also, according to the Annual Report and the management of the Company, the Digital Technology and Digital Security Segment which is formed by Nanjing Zhangyu and Shanghai Zhangyu contributed a segment profit before taxation of approximately RMB27.5 million for FY2022.

Furthermore, having considered the structure of the Possible Acquisitions, (i) Nanjing Zhangyu and the Group will hold approximately 51% of the Target Company upon Completions; and (ii) upon the Completions, the Target Company will then become an indirect non-wholly owned subsidiary of Nanjing Zhangyu and the Company. Based on the financial information of the Target Group as discussed in the sub-paragraph headed "3.3(c) Financial information of the Target Group" under the paragraph headed "3. Reasons for and benefits of the Loan Agreement" above in this letter, the Target

Group was profit-making and in net assets positions for FY2021 and FY2022. The management of the Company are of the view that Nanjing Zhangyu will be able to enjoy a potential profit sharing from the Target Group upon Completions through its indirect interests.

Shall the Company be difficulties in equity fund-raising at this moment based on the instability of recent financial market, given that

(i) the Group had net cash generated from operations (except for FY2021) in the past five year;

(ii) the advance of the Loan would not place material adverse financial effect on overall financial position and short-term working capital need of the Group;

(iii) the Company has no immediate need for fund-raising before granting of the Loan;

(iv) Mr. Peng Yinan, another ultimate beneficial shareholder of Nanjing Zhangyu will not provide any loan to Nanjing Zhangyu;

(v) Nanjing Zhangyu is unable to conduct public equity fund-raising;

(vi) without the granting of the Loan from Xin Ke Xin, Nanjing Zhangyu would be difficult to have adequate and immediate source of fund fulfilling the initial payment arrangement of the Possible Acquistions;

(vii) the Digital Technology and Digital Security Segment which is formed by Nanjing Zhangyu and Shanghai Zhangyu was in profit-making position for FY2022;

(viii) the share of profit potentials of the Target Group upon Completions will further broaden the source of income of Nanjing Zhangyu;

(ix) the Loan Agreement supports Nanjing Zhangyu to complete the Possible Acquisitions so as to diversify the current business model of the Group and broaden the Group's revenue base and cash flow sources as discussed in the paragraph headed "3. Reasons for and benefits of the Loan Agreement" above in this letter;

(x) the principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement are fair and reasonable as discussed in the paragraph headed "4. Principal terms of the Bid/Standard Agreement, the Equity Transfer Agreement I, the Equity Transfer Agreement II and the Partnership Agreement" above in this letter;

(xi) the principal terms of the Loan Agreement are fair and reasonable as discussed in the paragraph headed "Principal terms of the Loan Agreement" above in this letter;

(xii) the Possible Acquisitions and the Loan Agreement are inter-conditional upon each other. If the Loan Agreement is not approved by the Independent Shareholders, the Possible Acquisitions will not proceed; and

(xiii) all the Independent Shareholders are entitled to vote for or against the resolutions in respect of the Loan Agreement at the EGM,

nothing has come to our attention that the Loan Agreement is not fair and reasonable and not in the interest of the Company and the Shareholders as a whole.

**7. Financial effect of the Possible Acquisitions**

Upon Completions, the Target Company will become an indirect non-wholly owned subsidiary of the Company and its financial statements will be consolidated into the Group's financial statements.

The Target Group's profit for the year for the three years ended 31 December 2022 were approximately RMB24.5 million, RMB4.5 million and RMB45.4 million. Should the Target Group sustain its profitability in the future, the Possible Acquisitions are expected to have a positive impact on the Enlarged Group's earnings in the coming future. Based on the unaudited pro forma financial information of the Enlarged Group following the Possible Acquisitions as set out in the section headed "Appendix IV Unaudited pro forma financial information of the Enlarged Group" to the Circular, the net asset value is expected to increase mainly due to the net effect resulted from the consolidation of the assets and liabilities of the Target Group of approximately RMB1,053.6 million as at 31 December 2022; the total assets of the Group following the Possible Acquisitions would increase from approximately RMB2,542.3 million to approximately RMB4,698.4 million, while the total liabilities of the Group following the Possible Acquisitions would increase from approximately RMB653.5 million to approximately RMB2,195.2 million.

The details of the financial effect of the Possible Acquisitions on the financial position together with the bases and assumptions considered in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in the section headed "Appendix IV Unaudited pro forma financial information of the Enlarged Group" in the Circular.

**RECOMMENDATION**

Having taken into consideration of the above factors and reasons, we are of the view and concur with the view of the management of the Company that although the entering of the Loan Agreement is not in the ordinary and usual course of the Group's business, the Loan Agreement is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are 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 relevant resolution(s) at the EGM to approve the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
**Dakin Capital Limited**
**Tam Kin Fong**
*Managing Director*

*Note:* Mr. Tam Kin Fong is a responsible officer of Dakin Capital Limited, which is licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has been active in the field of corporate finance advisory for over 20 years, and has been involved in and completed various corporate finance advisory transactions.

* f*or identification purpose only*

## 1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the three years ended 31 December 2020, 31 December 2021 and 31 December 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and on the website of the Company (www.hengxin.com.sg).

- 2022 Annual Report, pages 75 to 160:
https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0324/2023032401049.pdf

- 2021 Annual Report, pages 67 to 144:
https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0323/2022032301037.pdf

- 2020 Annual Report, pages 70 to 148:
https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0323/2021032300473.pdf

## 2. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that following the Completions, after taking into account the effect of the Possible Acquisitions and the transaction contemplated under the Loan Agreement, the financial resources available to the Enlarged Group, including the presently available banking facilities, the internally generated funds from operations, and cash and bank balances of the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least 12 months from the date of publication of this circular.

## 3. INDEBTEDNESS STATEMENT

As at the close of business on 30 April 2023, being the most recent practicable date for the purpose of indebtedness statement of the Enlarged Group prior to the publication of this circular, the Enlarged Group had the following outstanding indebtedness:

| **Indebtedness** | **30 April 2023** |
|---|---|
| | *RMB'000* |
| Unsecured bank loans | 182,000 |
| Secured bank loans | 582,721 |
| Lease Liabilities | 7,376 |
| | 772,097 |

As at the close of business on 30 April 2023, being the latest practicable date for the purpose of this statement of indebtedness, the Enlarged Group had outstanding balance of lease liabilities of approximately RMB7 million, unsecured bank loans of approximately RMB182 million and secured bank loans of approximately RMB583 million, of which (1) RMB554 million were secured by the

Enlarged Group's sales of electricity and the certain property, plant and equipment of stations and (2) RMB29 million were secured by the Enlarged Group's pledged deposits amounting to RMB35 million, the sales of electricity and the certain property, plant and equipment of stations.

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

## 4. NO MATERIAL ADVERSE CHANGE

The Directors confirmed that there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2022 (being the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

## 5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is one of the leading manufacturers of integrated antennas and feeder cables for mobile communications in the PRC. According to the annual report of the Company for the year ended 31 December 2022, the Group realised a revenue of approximately RMB2,039.6 million, representing a year-on-year increase of approximately 25.5%, and a profit for the year of approximately RMB68.1 million, representing an increase of approximately 8.2% from previous year. Such increase was mainly attributable to the Group's higher effort on market exploration, the growth of its existing business as a result of successful tender for several projects during the financial year.

Following the adjustment of China's domestic pandemic prevention and control policies along with supportive policies issued by the PRC government that focus on driving the growth of the domestic market, the overall business environment and the prospect of telecommunications industry have improved as compared with previous years. Policies such as "Guideline on the Global Layout for Digital China Construction" issued by the Central Committee of the Communist Party of China and the State Council has also emphasised the importance of digital construction and made the work on the construction of "Digital China" as one of the priorities for the PRC government. Nevertheless, amid the uncertainties of the macro-environment caused by factors such as the U.S. interest rate hikes, inflation and geopolitical tensions, etc., the Group remains cautiously optimistic about the prospects of its existing business.

In terms of the telecommunications segment, apart from the continuous effort in developing its existing products or services, the Group will (i) strengthen industry collaboration and cultivate its industrial ecosystem, with an aim to provide all-round product solutions for indoor distribution, rail transit and aerial coverage; and (ii) continue to diversify its market footholds by strengthening the expansion into the non-centralised procurement and non-telecommunication markets of the domestic operators as well as overseas markets. As for the remaining segments that were recently established through acquisitions, the Group will (i) step up efforts to secure and develop new customers and strive to provide mass production services for some customers who have successfully completed the tape-out process, thereby achieving a significant increase in order amounts; (ii) increase its investment in research and development of its products such as the electronics security encryption authentication chips for intelligent consumption; and (iii) proactively cooperate with trading platform to the digital cultural product (gaming props) trading platform of Shandong Taishan Culture Art Exchange (山東泰山文化藝術品交易所) to ensure stable and normal operations since its inception and assist the Inner Mongolia Culture Assets and Equity Exchange (內蒙古文化產權交易所) in completing the preparation work prior to its official opening.

In face of the uncertainties of the macro-environment, the Group will, on one hand, continue to strengthen risk prevention and control in its existing business operations and, on the other hand, diversify its current business model and adjust the business strategies in a timely manner to ensure the sustainable development of its business. Leveraging on its financial resources and abundant working capital, the Group will seize investment opportunities with an aim to enhance the profitability of the Group while diversifying the Group's business risk, thereby maximizing value for its Shareholders.

The Possible Acquisitions are a good opportunity for the Group to tap into the solar thermal power and energy storage businesses, which is currently promoted by the PRC government, and it is expected the Target Group would become a new income stream of the Group and contribute a steady cash flow to the Group.

*The following is the text of a report set out on pages II-1 to II-60, received from the Target Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*

KPMG

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF ZHEJIANG ZHONGGUANG NEW ENERGY TECHNOLOGY CO., LTD. TO THE DIRECTORS OF HENGXIN TECHNOLOGY LTD.**

**Introduction**

We report on the historical financial information of Zhejiang Zhongguang New Energy Technology Co., Ltd. (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-60, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2020, 2021 and 2022 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2020, 2021 and 2022 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-60 forms an integral part of this report, which has been prepared for inclusion in the circular of Hengxin Technology Ltd. (the "**Company**") dated 29 June 2023 (the "**Circular**") in connection with the proposed acquisition of the 51% equity interest of the Target Group by the Company.

**Directors' responsibility for Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

The Underlying Financial Statements of the Target Group as defined on page II-3, on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("**IASB**"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

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

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

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

**Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2020, 2021 and 2022 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

**Adjustment**

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

KPMG
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 June 2023

## HISTORICAL FINANCIAL INFORMATION

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

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP Nanjing Branch in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. ("**Underlying Financial Statements**").

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

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*(Expressed in Renminbi ("RMB"))*

| | Note | 2020<br>*RMB'000* | 2021<br>*RMB'000* | 2022<br>*RMB'000* |
|---|---|---|---|---|
| **Revenue** | *4* | 106,562 | 107,534 | 152,991 |
| Cost of sales | | (53,248) | (56,988) | (57,374) |
| **Gross profit** | | 53,314 | 50,546 | 95,617 |
| Other operating income | *5* | 27,471 | 16,314 | 14,425 |
| Administrative expenses | | (8,200) | (14,914) | (18,425) |
| Other operating expenses | *6* | (8,098) | (9,958) | (11,145) |
| **Profit from operations** | | 64,487 | 41,988 | 80,472 |
| Interest expense | *7(a)* | (35,658) | (34,353) | (30,463) |
| Share of net (loss)/profit of an associate | *12* | (100) | (62) | 60 |
| **Profit before taxation** | *7* | 28,729 | 7,573 | 50,069 |
| Income tax | *8* | (4,223) | (3,100) | (4,717) |
| **Profit for the year** | | 24,506 | 4,473 | 45,352 |
| Other comprehensive income for the year | | – | – | – |
| **Total comprehensive income for the year** | | 24,506 | 4,473 | 45,352 |
| Attributable to: | | | | |
| Equity shareholders of the Target Company | | 24,091 | 4,468 | 45,348 |
| Non-controlling interest (NCI) | | 415 | 5 | 4 |
| **Total comprehensive income for the year** | | 24,506 | 4,473 | 45,352 |

The accompanying notes form part of the Historical Financial Information.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*(Expressed in Renminbi ("RMB"))*

| | Note | 31 December 2020 RMB'000 | 31 December 2021 RMB'000 | 31 December 2022 RMB'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment (PPE) | 9 | 965,854 | 961,311 | 922,170 |
| Intangible assets | 10 | 649 | 597 | 546 |
| Interest in an associate | 12 | 4,152 | 4,090 | 4,150 |
| Equity investment designated at fair value through other comprehensive income (FVOCI) | 13(a) | – | – | 996 |
| Time deposits | 16 | 50,000 | 70,000 | 50,000 |
| Pledged deposits | 17 | – | – | 35,000 |
| Trade and other receivables | 15 | 28,848 | – | – |
| Deferred tax assets | 23(b) | 31,723 | 33,285 | 32,375 |
| | | 1,081,226 | 1,069,283 | 1,045,237 |
| **Current assets** | | | | |
| Inventories | 14 | 811 | 971 | 933 |
| Trade and other receivables | 15 | 240,288 | 333,800 | 243,807 |
| Financial assets measured at fair value through profit or loss (FVTPL) | 13(b) | 30,391 | 31,164 | 6,934 |
| Time deposits | 16 | – | – | 70,000 |
| Cash | 18 | 553,493 | 329,525 | 442,925 |
| | | 824,983 | 695,460 | 764,599 |

The accompanying notes form part of the Historical Financial Information.

| | Note | 31 December 2020 RMB'000 | 31 December 2021 RMB'000 | 31 December 2022 RMB'000 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Bank loans | *20* | 17,027 | 19,127 | 31,919 |
| Trade and other payables | *19* | 153,603 | 103,339 | 79,509 |
| Lease liabilities | *22* | – | 587 | 651 |
| Income tax payable | *23(a)* | 1,206 | 2,130 | 2,052 |
| | | 171,836 | 125,183 | 114,131 |
| **Net current assets** | | 653,147 | 570,277 | 650,468 |
| **Total assets less current liabilities** | | 1,734,373 | 1,639,560 | 1,695,705 |
| **Non-current liabilities** | | | | |
| Bank Loans | *20* | 680,000 | 582,000 | 595,647 |
| Deferred income | *21* | 50,587 | 47,378 | 45,175 |
| Lease liabilities | *22* | – | 1,923 | 1,272 |
| | | 730,587 | 631,301 | 642,094 |
| **NET ASSETS** | | 1,003,786 | 1,008,259 | 1,053,611 |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | *24(c)* | 1,124,514 | 1,124,514 | 1,124,514 |
| Capital reserve | *24(d)* | 24,634 | 24,634 | 24,634 |
| General reserves | *24(d)* | 3,892 | 5,376 | 9,211 |
| Accumulated losses | | (150,681) | (147,697) | (106,184) |
| **Total equity attributable to equity shareholders of the Target Company** | | 1,002,359 | 1,006,827 | 1,052,175 |
| **Non-controlling interest (NCI)** | | 1,427 | 1,432 | 1,436 |
| **TOTAL EQUITY** | | 1,003,786 | 1,008,259 | 1,053,611 |

The accompanying notes form part of the Historical Financial Information.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

*(Expressed in Renminbi ("RMB"))*

| | | Attributable to equity shareholders of the Target Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share capital | Capital reserve | General reserves | Accumulated losses | Total | Non-controlling interest | Total |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2020** | | 1,000,000 | – | 2,237 | (112,754) | 889,483 | 109,029 | 998,512 |
| **Changes in equity for 2020:** | | | | | | | | |
| Capital injection | | 124,514 | 24,634 | – | – | 149,148 | – | 149,148 |
| Profit for the year | | – | – | – | 24,091 | 24,091 | 415 | 24,506 |
| Transfer to general reserves | *24(d)* | – | – | 1,655 | (1,655) | – | – | – |
| Acquisition of NCI without a change in control | *11* | – | – | – | (60,363) | (60,363) | (108,017) | (168,380) |
| **Balance at 31 December 2020** | | 1,124,514 | 24,634 | 3,892 | (150,681) | 1,002,359 | 1,427 | 1,003,786 |
| **Balance at 1 January 2021** | | 1,124,514 | 24,634 | 3,892 | (150,681) | 1,002,359 | 1,427 | 1,003,786 |
| **Changes in equity for 2021:** | | | | | | | | |
| Profit for the year | | – | – | – | 4,468 | 4,468 | 5 | 4,473 |
| Transfer to general reserves | *24(d)* | – | – | 1,484 | (1,484) | – | – | – |
| **Balance at 31 December 2021** | | 1,124,514 | 24,634 | 5,376 | (147,697) | 1,006,827 | 1,432 | 1,008,259 |
| **Balance at 1 January 2022** | | 1,124,514 | 24,634 | 5,376 | (147,697) | 1,006,827 | 1,432 | 1,008,259 |
| **Changes in equity for 2022:** | | | | | | | | |
| Profit for the year | | – | – | – | 45,348 | 45,348 | 4 | 45,352 |
| Transfer to general reserves | *24(d)* | – | – | 3,835 | (3,835) | – | – | – |
| **Balance at 31 December 2022** | | 1,124,514 | 24,634 | 9,211 | (106,184) | 1,052,175 | 1,436 | 1,053,611 |

The accompanying notes form part of the Historical Financial Information.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(Expressed in Renminbi ("RMB"))*

| | Note | 2020 RMB'000 | 2021 RMB'000 | 2022 RMB'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Profit before taxation | | 28,729 | 7,573 | 50,069 |
| Adjustments for: | | | | |
| Amortisation of deferred income | | (3,048) | (3,209) | (2,253) |
| Depreciation of property, plant and equipment and right-of-use assets | *7(c)* | 36,197 | 38,925 | 40,697 |
| Amortisation of intangible assets | *7(c)* | 51 | 52 | 51 |
| Interest expense | *7(a)* | 35,658 | 34,353 | 30,463 |
| Interest income | | (18,646) | (11,642) | (11,309) |
| Share of net loss/(profit) of an associate | | 100 | 62 | (60) |
| Net realised gains on financial assets at FVTPL | *5* | (5,814) | (772) | (249) |
| Net loss on disposal of property, plant and equipment | *6* | – | 934 | 180 |
| | | 73,227 | 66,276 | 107,589 |
| Changes in working capital: | | | | |
| Inventories | | (611) | (161) | 38 |
| Trade and other receivables | | (83,899) | (93,511) | 90,043 |
| Other payables | | (63,839) | (21,417) | (23,830) |
| Cash (used in)/generated from operations | | (75,122) | (48,813) | 173,840 |
| Interest received | | 18,646 | 11,642 | 11,309 |
| Income tax paid | | (5,970) | (3,738) | (3,885) |
| **Net cash (used in)/generated from operating activities** | | (62,446) | (40,909) | 181,264 |

The accompanying notes form part of the Historical Financial Information.

| | Note | 2020<br>RMB'000 | 2021<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|---|---|
| **Investing activities** | | | | |
| Payment for acquisition of property, plant and equipment | | (329,819) | (33,749) | (1,786) |
| Payment for acquisition of non-controlling interest | 11 | (168,380) | – | – |
| Payment for investment of on financial assets at FVTPL | | (980,000) | – | (6,726) |
| Payment for investment of equity investment designated at FVOCI | | – | – | (996) |
| Proceeds from disposal of property, plant and equipment | | – | 1,510 | 50 |
| Proceeds from financial assets at FVTPL | | 950,000 | – | 30,000 |
| Investment income received from financial assets at FVTPL | | 5,423 | – | 1,205 |
| Changes in pledged deposits | | – | – | (35,000) |
| Changes in time deposits | | (50,000) | (20,000) | (50,000) |
| **Net cash used in investing activities** | | (572,776) | (52,239) | (63,253) |
| **Financing activities** | | | | |
| Cash received from capital injection | | 149,148 | – | – |
| Proceeds from bank loans | 18(b) | – | 2,251 | 39,203 |
| Repayment of bank loans | 18(b) | (12,407) | (98,000) | (12,733) |
| Capital element of lease rentals paid | 18(b) | – | (567) | (587) |
| Interest element of lease rentals paid | 18(b) | – | (116) | (106) |
| Interest paid | 18(b) | (37,203) | (34,388) | (30,388) |
| **Net cash generated/(used in) from financing activities** | | 99,538 | (130,820) | (4,611) |
| **Net (decrease)/increase in cash** | | (535,684) | (223,968) | 113,400 |
| **Cash at 1 January** | | 1,089,177 | 553,493 | 329,525 |
| **Cash at 31 December** | 18 | 553,493 | 329,525 | 442,925 |

The accompanying notes form part of the Historical Financial Information.

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

*(Expressed in Renminbi ("RMB") unless otherwise indicated)*

### 1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Zhejiang Zhongguang New Energy Technology Co., Ltd. (the "**Target Company**") was incorporated in People's Republic of China ("**PRC**") on 8 January 2018 with its registered office at Unit 07-09,20/F, Tower 2, Hangzhou Eastern International business center, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, PRC.

The principal activity of the Target Company is investment holding. The Target Company and its subsidiaries (together, "**the Target Group**") are principally engaged in solar thermal power electricity generation as well as the provision of related technical and consultancy services.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("**IASB**"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2022. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2022 are set out in Note 29.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at the date of this report, the Target Company has direct interests in the following subsidiaries, all of which are private companies:

| Name of company | Place and date of incorporation/ establishment | Particulars of paid-up capital | Percentage of equity attributed to the Target Company Direct | Indirect | Principal activities | Name of statutory auditor |
|---|---|---|---|---|---|---|
| Qinghai Zhongkong Solar Power Co., Ltd. ("**Qinghai Zhongkong**") * (青海中控太陽能發電有限公司) | PRC May 24, 2011 | RMB370,000,000 | 100% | – | generation of electricity and operation of solar thermal power stations | 2020: Zhejiang Tianheng Certified Public Accountants Co., Ltd. (浙江天恒會計師事務所有限公司) 2021 and 2022: Zhonghui Certified Public Accountants (中匯會計師事務所(特殊普通合夥)) |
| Xinjiang Hami Zhongkong Solar Power Co., Ltd. ("**Xinjiang Zhongkong**") * (新疆哈密眾控太陽能發電有限公司) | PRC November 17, 2017 | RMB4,000,000 | 75% | – | generation of electricity and operation of solar thermal power stations | Not applicable |
| Gansu Yumen Zhongkong Solar Power Co., Ltd.("**Gansu Zhongkong**") * (甘肅玉門眾控太陽能發電有限公司) | PRC November 1, 2017 | RMB4,000,000 | 75% | – | generation of electricity and operation of solar thermal power stations | Not applicable |

* The English translation of the company is for reference only. The official name is in Chinese.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

### (b) Use of estimation and judgement

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

**(c) Functional and presentation currency**

The Historical Financial Information are presented in Renminbi ("**RMB**"), which is the Target Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

**(d) Subsidiaries and non-controlling interest**

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interest represent the equity in a subsidiary not attributable directly or indirectly to the Target Company, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Target Company. Loans from holders of non-controlling interest and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2(p) or 2(q) depending on the nature of the liability.

Changes in the Target Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Target Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 2(e)), or joint venture.

In the Target Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

**(e) Associate**

An associate is an entity in which the Target Group or Target Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Target Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Target Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Target Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)(ii)). Any acquisition-date excess over cost, the Target Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Target Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Target Group's share of losses exceeds its interest in the associate, the Target Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Target Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Target Group's net investment in the associate, after applying the expected credit losses (ECLs) model to such other long-term interests where applicable (see Note 2(k)(i)).

Unrealised profits and losses resulting from transactions between the Target Group and its associates are eliminated to the extent of the Target Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Target Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)).

**(f) Other investments in debt and equity securities**

The Target Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Target Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVTPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Target Group determines fair value of financial instruments, see Note 25(d). These investments are subsequently accounted for as follows, depending on their classification.

***(i) Investments other than equity investments***

Non-equity investments held by the Target Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(u)(ii)).

– fair value through profit or loss (FVTPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

***(ii) Equity investments***

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Target Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to accumulated profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI, are recognised in profit or loss as other income.

**(g) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (see Note 2(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | | |
|---|---|---|
| – | Building | 30 years |
| – | Electric generating facilities | 10 – 30 years |
| – | Office equipment | 5 – 10 years |
| – | Motor vehicles | 5 years |

Right-of-use assets is depreciated over the unexpired term of lease.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents plant and buildings under construction and equipment pending installation, and is stated at cost less impairment losses (see Note 2(k)(ii)). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the PRC.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

**(h) Intangible assets**

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(k)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| Patents | 12 – 16 years |

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

**(i) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Target Group intends to and has sufficient resources to complete development and to use or sell the asset. However, because of the nature of the Target Group's development activities, the criteria for the recognition of such costs as assets are generally not met, relevant development expenditure is recognised in profit or loss as incurred.

**(j) Leased assets**

At inception of a contract, the Target Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

***As a lessee***

Where the contract contains lease component(s) and non-lease component(s), the Target Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Target Group are primarily laptops and office furniture. When the Target Group enters into a lease in respect of a low-value asset, the Target Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(k)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

The Target Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

**(k) Credit losses and impairment of assets**

***(i) Credit losses from financial instruments and contract assets***

The Target Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash, trade receivables and other receivables, including loans to an associate, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

– debt securities measured at FVOCI (recycling).

Other financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

In measuring ECLs, the Target Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (ii) the financial asset is 180 days past due. The Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

*Basis of calculation of interest income*

Interest income recognised in accordance with Note 2(u)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

*Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

***(ii) Impairment of other non-current assets***

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets;

– intangible assets; and

– investments in subsidiaries and an associate in the Target Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

**(l) Inventories and other contract costs**

***(i) inventories***

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(m) Contract liabilities**

A contract liability is recognised when the customer pays non-refundable consideration before the Target Group recognises the related revenue (see Note 2(u)(i)). A contract liability would also be recognised if the Target Group has an unconditional right to receive non-refundable consideration before the Target Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(n)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(u)(i)).

**(n) Trade and other receivables**

A receivable is recognised when the Target Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Target Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(k)(i)).

**(o) Cash**

Cash comprise cash at bank. Bank overdrafts that are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash for the purpose of the consolidated cash flow statement. Cash is assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(k)(i).

**(p) Trade and other payables**

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

**(q) Bank loans**

Bank loans are measured initially at fair value less transaction costs. Subsequent to initial recognition, Bank loans are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Target Group's accounting policy for borrowing costs (see Note 2(v)).

**(r) Employee benefits**

***(i) Short-term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

***(ii) Termination benefits***

Termination benefits are recognised at the earlier of when the Target Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

**(s) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

The Target Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Target Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(t) Provisions and contingent liabilities**

Provisions are recognised when the Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

**(u) Revenue and other income**

Income is classified by the Target Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Target Group's business.

The Target Group is the principal for its revenue transactions and recognises revenue on a gross basis except for provision of technical and consultancy services, the Target Group is the agent for the transactions and recognizes revenue on a net basis. In determining whether the Target Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Target Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Further details of the Target Group's revenue and other income recognition policies are as follows:

***(i) Revenue from contracts with customers***

Revenue is recognised when (or as) control over a product or service is transferred to the customer at the amount of promised consideration to which the Target Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

*(a) Sale of electricity and tariff income*

Revenue from the sale of electricity or steam and tariff income are recognized based upon output delivered. Under the transfer-of-control approach in IFRS 15, *Revenue from Contracts with Customers* ("**IFRS 15**"), revenue from sales of electricity and tariff income is generally recognized upon transmission of electricity to the customers, which is the point of time when the customer has the ability to direct the use of the output and obtain substantially all of the remaining benefits of the output.

*(b) Provision of technical and consultancy services*

Revenue from provision of technical and consultancy services is recognised over time, using an output method to measure progress towards complete satisfaction of the service, because the customer of the Target Group simultaneously receives and consumes the benefit provided by the Target Group's performance as the Target Group performs.

***(ii) Revenue from other sources and other income***

*(a) Interest income*

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(k)(i)).

*(b) Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are presented in the consolidated statements of financial position by setting up the grant as deferred income and consequently are effectively recognised in profit or loss on a systematic basis over the useful life of the asset.

**(v) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

**(w) Related parties**

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(x) Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**3 ACCOUNTING JUDGEMENT AND ESTIMATES**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The principal accounting policies are set forth in Note 2. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described as follows:

**(a) Depreciation and amortisation:**

Property, plant and equipment (including right-of-use assets) are depreciated on a straight-line basis over the estimated useful lives and the unexpired term of lease of the assets, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Target Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

**(b) Impairment of trade and other receivables:**

The Target Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortised cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

## 4 REVENUE AND SEGMENT REPORTING

**(a) Revenue**

The principal activities of the Target Group are solar thermal power electricity generation as well as the provision of related technical and consultancy services.

***Disaggregation of revenue***

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Sales of electricity and tariff income | 106,562 | 105,656 | 152,704 |
| Provision of technical and consultancy services | – | 1,878 | 287 |
| | 106,562 | 107,534 | 152,991 |

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue recognized at a point in time | 106,562 | 105,656 | 152,704 |
| Revenue recognized over time | – | 1,878 | 287 |
| | 106,562 | 107,534 | 152,991 |

The income receipts right in relation to the sales of electricity was pledged as securities for bank loans of the Target Group (see Note 20).

**(b) Segment reporting**

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Target Group 's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Target Group have determined that it only has one operating segment which is supply of electricity as well as the provision of provision of technical and consultancy services.

***(i) Information about geographical area***

The Target Group also operate within one geographical segment because their revenues are all generated in the PRC and their assets are all located in the PRC. Accordingly, no geographical segment data is presented.

***(ii) Information about major customers***

Revenue from major customers which accounts for 10% or more of the Target Group's revenue are as follows:

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Customer A | 106,562 | 105,656 | 152,704 |

## 5 OTHER OPERATING INCOME

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest income | 18,646 | 11,642 | 11,309 |
| Government grants | 3,011 | 3,892 | 2,840 |
| Net realised gains on financial assets at FVTPL | 5,814 | 772 | 249 |
| Others | – | 8 | 27 |
| | 27,471 | 16,314 | 14,425 |

## 6 OTHER OPERATING EXPENSES

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Research and development expenses | 7,999 | 9,024 | 10,951 |
| Net loss on write-off and disposal of property, plant and equipment | – | 934 | 180 |
| Donation | – | – | 14 |
| Penalty expenses | 99 | – | – |
| | 8,098 | 9,958 | 11,145 |

These research and development expenses were not capitalised as the Target Group cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

Penalty expenses mainly represent penalty to early termination of office rental agreement.

## 7 PROFIT BEFORE TAXATION

### (a) Interest expense

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest expense on bank loans | 35,104 | 34,237 | 30,357 |
| Interest on lease liabilities | – | 116 | 106 |
| Other interest expense | 554 | – | – |
| | 35,658 | 34,353 | 30,463 |

### (b) Staff costs

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries and bonus | 16,878 | 21,789 | 22,916 |
| Contributions to defined contribution plans | 1,507 | 4,218 | 5,053 |
| | 18,385 | 26,007 | 27,969 |

Pursuant to the relevant regulations of the PRC government, the Target Company and its subsidiaries have participated in central pension schemes ("**the Schemes**") operated by local municipal government whereby the Target Company and its subsidiaries are required to contribute 3.5%-26% of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal government undertake to assume the retirement benefit obligations of all existing and future retired employees of the Target Group. The only obligation of the Target Company and its subsidiaries with respect to the Scheme is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to profit or loss as incurred.

### (c) Other items

| | | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* |
| Amortisation of intangible assets | *10* | 51 | 52 | 51 |
| Depreciation charge | | | | |
| – owned property, plant and equipment | | 35,011 | 37,175 | 38,896 |
| – right-of-use assets | *9* | 1,186 | 1,750 | 1,801 |
| | | 36,197 | 38,925 | 40,697 |
| Audit fees | | 261 | 203 | 142 |
| Cost of inventories | *14* | 2,791 | 1,571 | 2,667 |

## 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### (a) Taxation in the consolidated statement of profit or loss represents:

| | | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current tax expense** | | | | |
| Current year | | 4,223 | 4,662 | 3,791 |
| Under-provision in prior years | | – | – | 16 |
| | | 4,223 | 4,662 | 3,807 |
| **Deferred tax expense** | | | | |
| Origination of temporary differences | | – | (1,562) | 910 |
| Income tax expense | *23* | 4,223 | 3,100 | 4,717 |

*Note:*

The provision for PRC Income Tax is based on the respective corporate income tax rates applicable to the Target Company and its subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

As at 31 December 2020, 2021 and 2022, the statutory corporate income tax rate of the Target Company and Target Group's operating subsidiaries is 25%. A subsidiary of the Target Group engaged in high-technology industry is entitled to preferential income tax rate of 15%.

A subsidiary of the Target Group established in the PRC is entitled to preferential tax treatments including three years exemption followed by three years of a 50% tax reduction.

### (b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit before taxation | 28,729 | 7,573 | 50,069 |
| Tax using the PRC statutory tax rate of 25% | 7,182 | 1,893 | 12,517 |
| Effect of different tax rates | (1,525) | 2,635 | (5,595) |
| Tax effect of non-deductible expenses | 89 | 285 | 67 |
| Tax effect of non-taxable income | (382) | – | – |
| Tax effect of bonus deduction for research and development costs | (1,141) | (1,713) | (2,288) |
| Under-provision in prior years | – | – | 16 |
| Actual income tax expense | 4,223 | 3,100 | 4,717 |

## 9 PROPERTY, PLANT AND EQUIPMENT

### (a) Reconciliation of carrying amount

| | Right-of-use assets | Building | Electric generating facilities | Office equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost:** | | | | | | | |
| Balance at 1 January 2020 | 30,642 | 14,046 | 950,559 | 1,453 | 360 | 173 | 997,233 |
| Additions | – | – | 4,974 | 20,094 | – | – | 25,068 |
| Balance at 31 December 2020 and 1 January 2021 | 30,642 | 14,046 | 955,533 | 21,547 | 360 | 173 | 1,022,301 |
| Additions | 3,077 | – | 32,458 | 1,237 | – | 54 | 36,826 |
| Disposals | – | – | (2,499) | (56) | – | – | (2,555) |
| Balance at 31 December 2021 and 1 January 2022 | 33,719 | 14,046 | 985,492 | 22,728 | 360 | 227 | 1,056,572 |
| Additions | – | – | 45 | 31 | – | 1,710 | 1,786 |
| Disposals | – | – | – | (7) | – | (227) | (234) |
| Balance at 31 December 2022 | 33,719 | 14,046 | 985,537 | 22,752 | 360 | 1,710 | 1,058,124 |

| | Right-of-use assets | Building | Electric generating facilities | Office equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Accumulated depreciation:** | | | | | | | |
| Balance at 1 January 2020 | (2,273) | (1,096) | (16,692) | (123) | (66) | – | (20,250) |
| Charge for the year | (1,186) | (511) | (33,962) | (501) | (37) | – | (36,197) |
| Balance at 31 December 2020 and at 1 January 2021 | (3,459) | (1,607) | (50,654) | (624) | (103) | – | (56,447) |
| Charge for the year | (1,750) | (511) | (34,139) | (2,488) | (37) | – | (38,925) |
| Written back on disposals | – | – | 81 | 30 | – | – | 111 |
| Balance at 31 December 2021 and at 1 January 2022 | (5,209) | (2,118) | (84,712) | (3,082) | (140) | – | (95,261) |
| Charge for the year | (1,801) | (511) | (35,798) | (2,550) | (37) | – | (40,697) |
| Written back on disposals | – | – | – | 4 | – | – | 4 |
| Balance at 31 December 2022 | (7,010) | (2,629) | (120,510) | (5,628) | (177) | – | (135,954) |
| **Net book value:** | | | | | | | |
| At 31 December 2020 | 27,183 | 12,439 | 904,879 | 20,923 | 257 | 173 | 965,854 |
| At 31 December 2021 | 28,510 | 11,928 | 900,780 | 19,646 | 220 | 227 | 961,311 |
| At 31 December 2022 | 26,709 | 11,417 | 865,027 | 17,124 | 183 | 1,710 | 922,170 |

As at 31 December 2020, 2021 and 2022, property, plant and equipment with carrying amounts of approximately RMB904,879,000, RMB900,780,000 and RMB865,027,000, respectively, were pledged as securities for the Target Group's bank loans (see Note 20).

**(b) Right-of-use assets**

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

| | Note | 2020 *RMB'000* | 2021 *RMB'000* | 2022 *RMB'000* |
|---|---|---|---|---|
| Ownership interests in leasehold land held for own use, carried at depreciated cost | *(i)* | 27,183 | 25,998 | 24,812 |
| Other properties leased for own use, carried at depreciated cost | *(ii)* | – | 2,512 | 1,897 |
| | | 27,183 | 28,510 | 26,709 |

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

| | 2020 *RMB'000* | 2021 *RMB'000* | 2022 *RMB'000* |
|---|---|---|---|
| Depreciation charge of right-of-use assets by class of underlying asset: | | | |
| Ownership interests in leasehold land | 1,186 | 1,186 | 1,186 |
| Other properties leased for own use | – | 564 | 615 |
| | 1,186 | 1,750 | 1,801 |
| Expense relating to short-term leases | 746 | 119 | – |

During the Relevant Periods, additions to right-of-use assets were RMB3,077,000 for year end 31 December 2021. This amount is related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in Notes 18(c), 22 and 25(b), respectively.

***(i) Ownership interests in leasehold land held for own use***

The Target Group holds several leasehold land for its business, including the whole or part of undivided share in the land in the PRC, where its solar thermal power facilities are primarily located. The leases run for periods was 30 years. The Target Group is the registered owner of these property interests. Lump sum payments were made upfront to acquire these property interests from the PRC government authorities, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

***(ii) Other properties leased for own use***

The Target Group has obtained the right to use other properties as its office through tenancy agreements. The leases typically run for an initial period of 5 years.

**10 INTANGIBLE ASSETS**

| | Patents |
|---|---|
| | *RMB'000* |
| **Cost:** | |
| At 1 January 2020, 31 December 2020, 2021 and 31 December 2022 | 700 |
| **Accumulated amortisation:** | |
| Balance at 1 January 2020 | – |
| Charge for the year | (51) |
| Balance at 31 December 2020 | (51) |
| Charge for the year | (52) |
| Balance at 31 December 2021 | (103) |
| Charge for the year | (51) |
| Balance at 31 December 2022 | (154) |
| **Carrying amount:** | |
| At 31 December 2020 | 649 |
| At 31 December 2021 | 597 |
| At 31 December 2022 | 546 |

The amortisation charge for the Relevant Periods is included in "administrative expenses" in the consolidated statement of profit or loss. No impairment loss was recognised during the Relevant Periods.

## 11 ACQUISITION OF NCI

In December 2020, the Target Group has entered into an agreement with Zhejiang Zhongsheng Solar Energy Technology Co., Ltd., a minority shareholder of Qinghai Zhongkong Solar Power Co., Ltd. Pursuant to the agreement, the Target Group agreed to acquire 30% equity interest in Qinghai Zhongkong Solar Power Co., Ltd. from Zhejiang Zhongsheng Solar Energy Technology Co., Ltd. at a cash consideration of RMB168,380,000. After the acquisition, Qinghai Zhongkong became a wholly owned subsidiary of the Target Group.

| | **Qinghai Zhongkong** *RMB'000* |
|---|---|
| NCI percentage | 30% |
| Current assets | 411,068 |
| Non-current assets | 1,118,004 |
| Current liabilities | 438,428 |
| Non-current liabilities | 730,587 |
| Net assets | 360,057 |
| Carrying amount of NCI acquired | 108,017 |
| Consideration paid to NCI | (168,380) |
| A decrease in equity attributable to owners of the Target Company | (60,363) |

The decrease in equity attribute to owners of the Target Company was a decrease in the equity attributed to owners of the Target Company of RMB60,363,000.

## 12 INTEREST IN AN ASSOCIATE

| | **2020** *RMB'000* | **2021** *RMB'000* | **2022** *RMB'000* |
|---|---|---|---|
| Cost of investment in an associate | 4,500 | 4,500 | 4,500 |
| Share of losses | (348) | (410) | (350) |
| | 4,152 | 4,090 | 4,150 |

Details of the associate are as follows:

| | | | | Proportion of ownership interest | | |
|---|---|---|---|---|---|---|
| **Name of associate** | **Form of business structure** | **Place of incorporation and business** | **Particulars of issued and paid-up capital** | **Held by the Target Company** | **Held by a subsidiary** | **Principal activities** |
| Zhejiang Zhongguang Electric Power Engineering Co., Ltd. ("**Zhongguang Electric**") * (浙江中光電力工程有限公司) | Limited liability company | PRC | RMB106 million | 15% | – | Provision of development consultation and technical services |

* The English translation of the company is for reference only. The official name is in Chinese.

The board of directors considered the Target Group has a significant influence over Zhongguang Electric as they have nominated one representative on the board of directors and participated in policy-making processes.

In August 2018, Zhongguang Electric was established by the Target Group and other four parties, among which the Target Group injected capital contribution of RMB4,500,000 and has a 15% equity interest. The Target Group is able to appoint two directors in the board of directors of Zhongguang Electric and therefore the directors of the Target Group consider that the Target Group has significant influence over Zhongguang Electric.

The above associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

| | Zhongguang Electric | | |
|---|---|---|---|
| | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Gross amounts of the associate's** | | | |
| Current assets | 27,816 | 27,328 | 27,677 |
| Non-current assets | 154 | 5 | 9 |
| Current liabilities | 288 | 63 | 23 |
| Net equity | 27,682 | 27,270 | 27,663 |
| Revenue | – | – | – |
| Gain/(Loss) from continuing operations | (669) | (412) | 393 |
| Total comprehensive income | (669) | (412) | 393 |
| **Reconciled to the Target Group's interests in the associate** | | | |
| Gross amounts of net assets of the associate | 27,682 | 27,270 | 27,663 |
| Target Group's effective interest | 15% | 15% | 15% |
| Target Group's share of net assets of the associate | 4,152 | 4,090 | 4,150 |
| Carrying amount in the consolidated financial statements | 4,152 | 4,090 | 4,150 |

## 13 EQUITY AND DEBT INVESTMENTS

### (a) Equity investment designated at FVOCI

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Equity investment designated at FVOCI (non-recycling)** | | | |
| Unlisted equity investment – Tongyujidian New Energy Co., Ltd., ("**Tongyu New Energy**")) (通榆吉電新能源有限公司*) | – | – | 996 |

* The English translation of the company is for reference only. The official name is in Chinese.

Tongyu New Energy was established in the PRC with limited liability on 20 May 2022 with a registered capital of RMB50 million and is principally engaged in the sales of electricity. The Target Group acquired 2% of the equity interest in Tongyu New Energy on October 2022 through capital injection of RMB996,000.

The Target Group designated the investments shown below as equity securities at FVOCI because these equity securities represent investments that the Target Group intends to hold for the long-term strategic purposes.

| | **Fair value at 31 December 2022** | **Dividend income recognised during 2022** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Investment in Tongyu New Energy | 996 | – |

No strategic investments were disposed of during the Relevant Periods, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

**(b) Financial assets measured at FVTPL**

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current asset** | | | |
| Wealth management products | 30,391 | 31,164 | 6,934 |

The Target Group's current balances of financial assets measured at FVTPL were wealth management products issued by various financial institutions in the PRC with a floating return which will be paid together with the principal on the maturity date.

## 14 INVENTORIES

**(a) Inventories in the consolidated statement of financial position comprise:**

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Raw materials | 811 | 971 | 933 |

**(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:**

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Carrying amount of inventories sold | 2,791 | 1,571 | 2,667 |
| Less: Provision for write down of inventories | – | – | – |
| | 2,791 | 1,571 | 2,667 |

All of the inventories are expected to be recovered within one year.

## 15 TRADE AND OTHER RECEIVABLES

| | Note | 2020 RMB'000 | 2021 RMB'000 | 2022 RMB'000 |
|---|---|---|---|---|
| **Non-current** | | | | |
| Value-added Tax ("**VAT**") recoverables | *(i)* | 28,848 | – | – |
| **Current** | | | | |
| Trade receivables | *(ii)* | 158,060 | 254,450 | 213,715 |
| Bills receivables | *(ii)* | 15,404 | 8,945 | 14,116 |
| Less: Loss allowance | | – | – | – |
| | | 173,464 | 263,395 | 227,831 |
| Prepayments | | 14,604 | 2,028 | 1,117 |
| VAT recoverables | *(i)* | 51,194 | 56,347 | 674 |
| Refundable deposits | *(iii)* | 443 | 8,865 | 9,118 |
| Others | | 583 | 3,165 | 5,067 |
| | | 66,824 | 70,405 | 15,976 |
| | | 240,288 | 333,800 | 243,807 |

*Notes:*

i Included in the tax recoverable are VAT receivables in PRC arising from the purchase of service and other property, plant and equipment.

ii As at 31 December 2020, 2021 and 2022, certain trade debtors of RMB173,464,000, RMB263,395,000 and RMB227,831,000 were pledged as securities for bank loans of the Target Group, respectively (see Note 20).

iii Included in the refundable deposits are project deposits for bidding of customer contracts. These deposits paid will be refunded to the Target Group once project completed.

As at 31 December 2020, 2021 and 2022, the amount of other receivables expected to be recovered or recognised as expense after more than one year is RMB28,848,000, nil and nil, respectively.

All of the other trade and other receivables, are expected to be recovered or recognised as expense within one year.

**Ageing analysis**

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date is as follows:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 6 months | 54,725 | 76,280 | 86,285 |
| 7 to 12 months | 59,594 | 31,877 | 69,735 |
| 1 to 2 years | 55,447 | 97,025 | 56,795 |
| 2 to 3 years | 3,698 | 55,447 | 11,162 |
| Over 3 years | – | 2,766 | 3,854 |
| | 173,464 | 263,395 | 227,831 |

The Target Group's trade receivables are mainly solar energy electricity sales receivables from local grid companies. Generally, the receivables are due within 30 days to 60 days from the date of billing, except for the tariff premium. The collection of such tariff premium is subject to the allocation of funds by relevant government authorities to local grid companies, which therefore takes a relatively long time for settlement. As at 31 December 2020, 2021 and 2022, the tariff premium receivables included in trade receivables amounted to RMB156,170,000, RMB251,289,000 and RMB210,543,000, respectively.

Pursuant to CaiJian [2012] No.102 Notice on the Interim Measures for Administration of Subsidy Funds for Tariff Premium of Renewable Energy (可再生能源電價附加補助資金管理暫行辦法) jointly issued by the Ministry of Finance, the National Development and Reform Commission and the National Energy Administration in March 2012, a set of standardised procedures for the settlement of the tariff premium has come into force since 2012 and approvals on a project by project basis are required before the allocation of funds to local grid companies. As at 31 December 2020, 2021 and 2022, all of the Target Group's operating projects have been approved for the tariff premium.

The directors of the Target Company are of the opinion that the approvals have been obtained and the tariff premium receivables are fully recoverable considering that there are no bad debt experiences with the grid companies in the past and the tariff premium is funded by the PRC government.

Trade receivables that were neither past due nor impaired mainly represented the electricity sales receivable from local grid companies for whom there was no recent history of default.

Further details on the Target Group's credit policy and credit risk arising for trade receivable are set out in Note 25(a).

## 16 TIME DEPOSITS

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current** | | | |
| Time deposits | 50,000 | 70,000 | 50,000 |
| **Current** | | | |
| Time deposits | – | – | 70,000 |

As at 31 December 2020, 2021 and 2022, time deposits with maturity of more than one year were time deposits of two or three years with the interest rates from 2.00% to 3.70% per annum, which were presented as non-current assets in the consolidated statement of financial position.

As at 31 December 2022, interest rate of time deposit with maturity less than one year was 3.70% per annum, which were presented as current assets.

The Target Group's exposure to credit risk and interest rate risks are disclosed in Note 25(a).

## 17 PLEDGED DEPOSITS

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Pledged deposits for issuance of banking facilities | – | – | 35,000 |

Pledged deposits bear interest at an average effective interest rates at 2.9975% per annum and for thirteen years. The pledged deposits will be released by the expiry of relevant banking facilities.

## 18 CASH AND OTHER CASH FLOW INFORMATION

### (a) Cash comprise:

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash at bank | 553,493 | 329,525 | 442,925 |
| Cash in the consolidated statement of financial position and in the cash flow statement | 553,493 | 329,525 | 442,925 |

**(b) Reconciliation of liabilities arising from financing activities:**

| | Bank loans | Lease liabilities | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 20)* | *(Note 22)* | |
| **At 1 January 2020** | 710,979 | – | 710,979 |
| **Changes from financing cash flows:** | | | |
| Repayment of bank loans | (12,407) | – | (12,407) |
| Interest expense paid | (37,203) | – | (37,203) |
| Total changes from financing cash flows | (49,610) | – | (49,610) |
| **Other change:** | | | |
| Interest expense | 35,658 | – | 35,658 |
| **At 31 December 2020** | 697,027 | – | 697,027 |

| | Bank loans | Lease liabilities | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note 20)* | *(Note 22)* | |
| **At 1 January 2021** | 697,027 | – | 697,027 |
| **Changes from financing cash flows:** | | | |
| Proceeds from bank loans | 2,251 | – | 2,251 |
| Repayment of bank loans | (98,000) | – | (98,000) |
| Capital element of lease rentals paid | – | (567) | (567) |
| Interest element of lease rentals paid | – | (116) | (116) |
| Interest expense paid | (34,388) | – | (34,388) |
| Total changes from financing cash flows | (130,137) | (683) | (130,820) |
| **Other changes:** | | | |
| Increase in lease liabilities from entering new leases during the year | – | 3,077 | 3,077 |
| Interest expense | 34,237 | 116 | 34,353 |
| **At 31 December 2021** | 601,127 | 2,510 | 603,637 |

| | Bank loans<br>*RMB'000*<br>*(Note 20)* | Lease liabilities<br>*RMB'000*<br>*(Note 22)* | Total<br>*RMB'000* |
|---|---|---|---|
| **At 1 January 2022** | 601,127 | 2,510 | 603,637 |
| **Changes from financing cash flows:** | | | |
| Proceeds from bank loans | 39,203 | – | 39,203 |
| Repayment of bank loans | (12,733) | – | (12,733) |
| Capital element of lease rentals paid | – | (587) | (587) |
| Interest element of lease rentals paid | – | (106) | (106) |
| Interest expense paid | (30,388) | – | (30,388) |
| Total changes from financing cash flows | (3,918) | (693) | (4,611) |
| **Other change:** | | | |
| Interest expense | 30,357 | 106 | 30,463 |
| **At 31 December 2022** | 627,566 | 1,923 | 629,489 |

**(c) Total cash outflow for leases**

Amounts included in the cash flow statement for leases comprise the following:

| | 2020<br>*RMB'000* | 2021<br>*RMB'000* | 2022<br>*RMB'000* |
|---|---|---|---|
| Within operating cash flows | 746 | 119 | – |
| Within financing cash flows | – | 683 | 693 |
| | 746 | 802 | 693 |

These amounts relate to the following:

| | 2020<br>*RMB'000* | 2021<br>*RMB'000* | 2022<br>*RMB'000* |
|---|---|---|---|
| Lease rentals paid | 746 | 802 | 693 |

## 19 TRADE AND OTHER PAYABLES

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Payables for acquisition of PPE | 146,118 | 88,377 | 61,478 |
| Accrued operating expenses | 4,489 | 5,645 | 6,499 |
| Contract liabilities | 1,188 | – | – |
| VAT and other taxes payable | 193 | 80 | 1,678 |
| Other payables | 1,615 | 9,237 | 9,854 |
| | 7,485 | 14,962 | 18,031 |
| | 153,603 | 103,339 | 79,509 |

Movements in contract liabilities during the Relevant Periods are as follows:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at 1 January | – | 1,188 | – |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | – | (1,188) | – |
| Increase in contract liabilities as a result of billing in advance of manufacturing activities | 1,188 | – | – |
| Balance at 31 December | 1,188 | – | – |

All of the trade and other payables (including amounts due to related parties), are expected to be settled or recognised as income within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade and other payable, based on the invoice date, is as follows:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | 29,492 | 57,001 | 25,731 |
| 1 – 2 years | – | – | 27,108 |
| 2 – 3 years | 11,414 | – | – |
| Over 3 years | 112,697 | 46,338 | 26,670 |
| | 153,603 | 103,339 | 79,509 |

## 20 BANK LOANS

| | Note | 2020 RMB'000 | 2021 RMB'000 | 2022 RMB'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Secured bank loans | *(i)* | 17,027 | 16,876 | 31,308 |
| Unsecured bank loans | *(ii)* | – | 2,251 | 611 |
| | | 17,027 | 19,127 | 31,919 |
| **Non-current** | | | | |
| Secured bank loans | *(i)* | 697,027 | 598,876 | 626,555 |
| Unsecured bank loans | *(ii)* | – | – | 1,011 |
| Less: Secured bank loan – current | | (17,027) | (16,876) | (31,308) |
| Unsecured bank loans – current | | – | – | (611) |
| | | 680,000 | 582,000 | 595,647 |
| | | 697,027 | 601,127 | 627,566 |

*Notes:*

(i) The secured bank loans were secured by the income receipts right in relation to the sales of electricity and property, plant and equipment of the Target Group at an interest rate of 4.35 – 4.90% per annum. The secured bank loans are subject to the fulfilment of covenants related to certain financial ratios of the Target Group, as are commonly found in lending arrangements with financial institutions. The Target Group regularly monitors its compliance with the covenants. None of the covenants related to drawn down facilities were breached or no covenants are required during the Relevant Periods. An analysis of the carrying value of these assets is as follows:

| | 2020 RMB'000 | 2021 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| Plant and machinery *(Note 9)* | 904,879 | 900,780 | 865,027 |
| Trade and bills receivables *(Note 15)* | 173,464 | 263,395 | 227,831 |
| Pledged deposits *(Note 17)* | – | – | 35,000 |
| | 1,078,343 | 1,164,175 | 1,127,858 |

(ii) The unsecured bank loans carried interest at annual rates within 3.65 – 4.30% per annum.

**21 DEFERRED INCOME**

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred income | 50,587 | 47,378 | 45,175 |

Deferred income consists of unconditional government grants received for completion of certain construction project in Qinghai, PRC. The grants are related to assets and will be amortised in other operating income incurred in profit or loss over a period of 30 years.

**22 LEASE LIABILITIES**

At 31 December 2020, 2021 and 2022, the lease liabilities were repayable as follows:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | – | 587 | 651 |
| After 1 year but within 2 years | – | 651 | 721 |
| After 2 years but within 5 years | – | 1,272 | 551 |
| | – | 1,923 | 1,272 |
| | – | 2,510 | 1,923 |

**23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**(a) Current taxation in the consolidated statement of financial position represents:**

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of the year | 2,953 | 1,206 | 2,130 |
| Provision for PRC Corporate Income Tax for the year | 4,223 | 4,662 | 3,807 |
| Income taxes paid | (5,970) | (3,738) | (3,885) |
| At the end of the year | 1,206 | 2,130 | 2,052 |

**(b) Deferred tax assets recognised:**

***(i) Movement of each component of deferred tax assets***

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the Relevant Periods are as follows:

| | Note | Right-of-use assets | Depreciation on PPE | Accumulated deductible losses | Total |
|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2020, 31 December 2021 and 1 January 2021 | | – | 29,772 | 1,951 | 31,723 |
| Recognised in profit or loss | *8(a)* | 53 | (209) | 1,718 | 1,562 |
| At 31 December 2021 and 1 January 2022 | | 53 | 29,563 | 3,669 | 33,285 |
| Recognised in profit or loss | *8(a)* | 12 | (922) | – | (910) |
| At 31 December 2022 | | 65 | 28,641 | 3,669 | 32,375 |

Deferred tax assets are recognised to the extent that realisation of the related tax benefits through future taxable profits is probable.

***(ii) Reconciliation to the consolidated statement of financial position***

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Net deferred tax assets recognised in the consolidated statement of financial position | 31,723 | 33,495 | 32,546 |
| Net deferred tax liability recognised in the consolidated statement of financial position | – | (210) | (171) |
| | 31,723 | 33,285 | 32,375 |

## 24 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Target Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Target Company's individual components of equity between the beginning and the end of the Relevant Periods are set out below:

| The Target Company | | Reserves | | | |
|---|---|---|---|---|---|
| | Paid-in capital | Capital reserve | General reserve | Retained profits | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2020** | 1,000,000 | – | 1,965 | 17,702 | 1,019,667 |
| Changes in equity for 2020: | | | | | |
| Capital injection | 124,514 | 24,634 | – | – | 149,148 |
| Profit and total comprehensive income for the year | – | – | – | 15,183 | 15,183 |
| Transfer to general reserves | – | – | 1,518 | (1,518) | – |
| **Balance at 31 December 2020 and 1 January 2021** | 1,124,514 | 24,634 | 3,483 | 31,367 | 1,183,998 |
| Changes in equity for 2021: | | | | | |
| Profit and total comprehensive income for the year | – | – | – | 14,840 | 14,840 |
| Transfer to general reserves | – | – | 1,484 | (1,484) | – |
| **Balance at 31 December 2021 and 1 January 2022** | 1,124,514 | 24,634 | 4,967 | 44,723 | 1,198,838 |
| Changes in equity for 2022: | | | | | |
| Profit and total comprehensive income for the year | – | – | – | 13,225 | 13,225 |
| Transfer to general reserves | – | – | 1,323 | (1,323) | – |
| **Balance at 31 December 2022** | 1,124,514 | 24,634 | 6,290 | 56,625 | 1,212,063 |

### (b) Dividends

No dividends were declared or paid by the Target Company during the Relevant Periods.

### (c) Share capital

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Registered and paid-in capital | 1,124,514 | 1,124,514 | 1,124,514 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings of the Target Company.

**(d) Nature and purpose of reserves**

***(i) General reserves***

General reserves represent the statutory and discretionary reserve arising from the PRC subsidiaries.

In accordance with the PRC Company Law, the Target Company and its subsidiaries which are all domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

***(ii) Capital reserve***

The capital reserve represents the difference between the paid-in capital and registered capital amount of net assets of the PRC subsidiary arising from the capital injection of the Target Company in 2020.

**(e) Capital management**

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance, and to ensure that all externally imposed capital requirements are complied with. The Target Group's overall strategy remains unchanged from prior year.

The capital structure of the Target Group consists of debt and equity, which includes equity attributable to equity shareholders of the Target Company, comprising share capital, reserves and accumulated losses.

The Target Group's management reviews the capital structure on an on-going basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital and reserves. Based on recommendations of management, the Target Group will balance its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.

Management monitors capital based on the Target Group's debt-to-assets ratio. This ratio is calculated as total liabilities divided by total assets.

As at the end of the reporting period, the Target Group is in compliance with all capital requirements on its external borrowings.

The debt-to-assets ratio at the end of the reporting period is as follows:

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Total liabilities | (902,423) | (756,484) | (756,225) |
| Total assets | 1,906,209 | 1,764,743 | 1,809,836 |
| Debt-to-assets ratio | 47% | 43% | 42% |

## 25 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Exposure to credit, liquidity, interest rate arises in the normal course of the Target Group's business. The Target Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target Group. The Target Group's credit risk is primarily attributable to trade receivables. The Target Group's exposure to credit risk arising from cash, time deposits and bills receivables is limited because the counterparties are mainly reputable financial institutions with high credit standing, for which the Target Group considers to have low credit risk.

The Target Group does not provide any guarantees which would expose the Target Group to credit risk.

***Trade receivables***

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. As at 31 December 2020, 2021 and 2022, all of the total trade receivables was due from the Target Group's largest customer.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days to 60 days from the date of billing, except for the tariff premium. Normally, the Target Group does not obtain collateral from customers.

The Target Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Group's historical credit loss experience indicates significantly different loss patterns for different customer segments, the loss allowance based on past due status is distinguished between the Target Group's different customer bases.

As at 31 December 2020, 2021 and 2022, the analysis of trade receivables, by nature is as follows:

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Amounts due from provincial power grid companies | 1,890 | 3,161 | 3,171 |
| Tariff premium receivables | 156,170 | 251,289 | 210,544 |
| | 158,060 | 254,450 | 213,715 |

As at 31 December 2020, 2021 and 2022, the directors of the Target Company are of the opinion that the amounts due from provincial power grid companies and tariff premium receivables are fully recoverable considering that there are no loss experienced with the grid companies in the past and the tariff premium is funded by the PRC government. The tariff premium receivables accounted for 98.8%, 98.8% and 98.5% of the Target Group's trade receivables as at December 2020, 2021 and 2022, respectively.

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Target Group's view of economic conditions over the expected lives of the receivables. As the Target Group's receivables are mainly due from the power grid companies which are controlled by the PRC government and other trade receivables have no historical loss, the expected loss rates used in calculation of the ECLs is nil in the Relevant Periods.

**(b) Liquidity risk**

Individual operating entities within the Target Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Target Group's non-derivative financial liabilities and derivative financial instruments, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Group can be required to pay:

| | | Contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Within 1 year or on demand** | **More than 1 year but less than 2 years** | **More than 2 years but less than 5 years** | **Over 5 years** | **Total** | **Carrying amount at 31 December** |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **2020** | | | | | | | |
| Bank loans | *20* | 49,328 | 48,560 | 179,221 | 720,860 | 997,969 | 697,027 |
| Trade and other payables# | *19* | 152,222 | – | – | – | 152,222 | 152,222 |
| **At 31 December 2020** | | 201,550 | 48,560 | 179,221 | 720,860 | 1,150,191 | 849,249 |

| | | Contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Within 1 year or on demand *RMB'000* | More than 1 year but less than 2 years *RMB'000* | More than 2 years but less than 5 years *RMB'000* | Over 5 years *RMB'000* | Total *RMB'000* | Carrying amount at 31 December *RMB'000* |
| **2021** | | | | | | | |
| Bank loans | *20* | 46,577 | 51,366 | 187,759 | 564,691 | 850,393 | 601,127 |
| Trade and other payables# | *19* | 103,259 | – | – | – | 103,259 | 103,259 |
| Lease liabilities | *22* | 693 | 728 | 1,330 | – | 2,751 | 2,510 |
| **At 31 December 2021** | | 150,529 | 52,094 | 189,089 | 564,691 | 956,403 | 706,896 |

| | | Contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Within 1 year or on demand *RMB'000* | More than 1 year but less than 2 years *RMB'000* | More than 2 years but less than 5 years *RMB'000* | Over 5 years *RMB'000* | Total *RMB'000* | Carrying amount at 31 December *RMB'000* |
| **2022** | | | | | | | |
| Bank loans | *20* | 58,492 | 55,440 | 209,203 | 523,596 | 846,731 | 627,566 |
| Trade and other payables# | *19* | 77,831 | – | – | – | 77,831 | 77,831 |
| Lease liabilities | *22* | 728 | 766 | 563 | – | 2,057 | 1,923 |
| **At 31 December 2022** | | 137,051 | 56,206 | 209,766 | 523,596 | 926,619 | 707,320 |

# Exclude contract liabilities and VAT and other taxes payable.

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group's exposure to interest rate risks arises primarily from the Target Group's bank deposits and debt obligations.

***(i) Exposure to interest rate risk***

At the reporting date, the interest rate profile of the Target Group's interest-bearing financial instruments, as reported to management was as follows:

| | **2020** *RMB'000* | **2021** *RMB'000* | **2022** *RMB'000* |
|---|---|---|---|
| **Fixed-rate instruments** | | | |
| Time deposits | 50,000 | 70,000 | 120,000 |
| Pledged deposits | – | – | 35,000 |
| Bank loans | (697,027) | (601,127) | (627,566) |
| | (647,027) | (531,127) | (472,566) |

***(ii) Sensitivity analysis***

*Fair value sensitivity analysis for fixed-rate instruments*

The Target Group does not account for any fixed-rate financial assets and liabilities at fair value through profit or loss, and the Target Group does not use derivatives to hedge interest rate risk. Therefore, in respect of the fixed rate instrument, a change in interest rates at the reporting date would not affect profit or loss.

*Cash flow sensitivity analysis for variable-rate instruments*

The Target Group does not have significant financial assets or liabilities that are exposed to interest rate risk as at the end of reporting periods.

**(d) Fair value measurement**

***(i) Financial assets measured at fair value***

*Fair value hierarchy*

The following table presents the fair value of the Target Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | FVOCI *RMB'000* | FVTPL *RMB'000* | Amortised cost *RMB'000* | Other financial liabilities *RMB'000* | Total carrying amount *RMB'000* | Level 1 *RMB'000* | Level 2 *RMB'000* | Level 3 *RMB'000* | Total *RMB'000* |
| **31 December 2020** | | | | | | | | | | |
| **Financial asset measured at fair value** | | | | | | | | | | |
| Wealth management products | *13(b)* | – | 30,391 | – | – | 30,391 | – | 30,391 | – | 30,391 |
| **Financial assets not measured at fair value** | | | | | | | | | | |
| Trade and other receivables# | *15* | – | – | 173,907 | – | 173,907 | | | | |
| Time deposits | *16* | – | – | 50,000 | – | 50,000 | | | | |
| Cash | *18* | – | – | 553,493 | – | 553,493 | | | | |
| | | – | – | 777,400 | – | 777,400 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | | |
| Trade and other payables## | *19* | – | – | – | 152,222 | 152,222 | | | | |
| Bank loans | *20* | – | – | – | 697,027 | 697,027 | | | | |
| | | – | – | – | 849,249 | 849,249 | | | | |

| | | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | FVOCI | FVTPL | Amortised cost | Other financial liabilities | Total carrying amount | Level 1 | Level 2 | Level 3 | Total |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **31 December 2021** | | | | | | | | | | |
| **Financial asset measured at fair value** | | | | | | | | | | |
| Wealth management products | *13(b)* | – | 31,164 | – | – | 31,164 | – | 31,164 | – | 31,164 |
| **Financial assets not measured at fair value** | | | | | | | | | | |
| Trade and other receivables# | *15* | – | – | 272,260 | – | 272,260 | | | | |
| Time deposits | *16* | – | – | 70,000 | – | 70,000 | | | | |
| Cash | *18* | – | – | 329,525 | – | 329,525 | | | | |
| | | – | – | 671,785 | – | 671,785 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | | |
| Trade and other payables## | *19* | – | – | – | 103,259 | 103,259 | | | | |
| Bank loans | *20* | – | – | – | 601,127 | 601,127 | | | | |
| Lease liabilities | *22* | – | – | – | 2,510 | 2,510 | | | | |
| | | – | – | – | 706,896 | 706,896 | | | | |

| | | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Note | FVOCI<br>*RMB'000* | FVTPL<br>*RMB'000* | Amortised cost<br>*RMB'000* | Other financial liabilities<br>*RMB'000* | Total carrying amount<br>*RMB'000* | Level 1<br>*RMB'000* | Level 2<br>*RMB'000* | Level 3<br>*RMB'000* | Total<br>*RMB'000* |
| **31 December 2022** | | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | | |
| Unlisted equity investment | *13(a)* | 996 | – | – | – | 996 | – | – | 996 | 996 |
| Wealth management products | *13(b)* | – | 6,934 | – | – | 6,934 | – | 6,934 | – | 6,934 |
| | | 996 | 6,934 | – | – | 7,930 | – | 6,934 | 996 | 7,930 |
| **Financial assets not measured at fair value** | | | | | | | | | | |
| Trade and other receivables# | *15* | – | – | 236,949 | – | 236,949 | | | | |
| Time deposits | *16* | – | – | 120,000 | – | 120,000 | | | | |
| Pledged deposits | *17* | – | – | 35,000 | – | 35,000 | | | | |
| Cash | *18* | – | – | 442,925 | – | 442,925 | | | | |
| | | – | – | 834,874 | – | 834,874 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | | |
| Trade and other payables## | *19* | – | – | – | 77,831 | 77,831 | | | | |
| Bank loans | *20* | – | – | – | 627,566 | 627,566 | | | | |
| Lease liabilities | *22* | – | – | – | 1,923 | 1,923 | | | | |
| | | – | – | – | 707,320 | 707,320 | | | | |

\# Exclude prepayments, VAT recoverables and others.

\## Exclude contract liabilities and VAT and other taxes payable.

During the years ended 31 December 2020, 2021 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Target Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

*Valuation techniques and inputs used in Level 2 fair value measurements*

The fair values of the wealth management products in Level 2 have been calculated by net value which is released by banks as at balance sheet date. The fair values have been assessed to be approximate to their carrying amounts.

*Information about Level 3 fair value measurements*

| | Valuation techniques | Significant unobservable inputs |
|---|---|---|
| Unlisted equity investment | Valuation multiples | Changing trend of medium market multiples of comparable companies/ medium market multiples of comparable companies |

The fair value of certain unlisted investments is determined using valuation multiples adjusted for changing trend of medium market multiples of comparable companies or medium market multiples of comparable companies. The fair value measurement is positively correlated to the changing trend of medium market multiples of comparable companies. As at 31 December 2020, 2021 and 2022, it is estimated that with all other variables held constant, an increase/decrease in change of medium market multiples of comparable companies would not have a material impact on the Target Group's profit for the Relevant Periods.

*Reconciliation of Level 3 fair values*

| | *RMB'000* |
|---|---|
| Fair value at 1 January 2020, 31 December 2020 and 31 December 2021 | – |
| Investment in Tongyujidian New Energy | 996 |
| Fair value at 31 December 2022 | 996 |

***(ii) Financial assets and liabilities carried at other than fair value***

All financial instruments measured at other than fair value are carried at cost or amortised cost that were not materially different from their fair values as at 31 December 2020, 2021 and 2022.

## 26 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Key management personnel remuneration

Remuneration for key management personnel of the Target Group, including amounts paid to the Target Company's directors and certain of the highest paid employees is as follows:

| | **2020** | **2021** | **2022** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Short-term employee benefits | 1,894 | 3,099 | 2,831 |
| Retirement benefits scheme contributions | 128 | 199 | 269 |
| | 2,022 | 3,298 | 3,100 |
| Key management personnel compensation comprised amounts paid to: | | | |
| – directors of the Target Company | – | – | – |
| – other key management personnel | 2,022 | 3,298 | 3,100 |
| | 2,022 | 3,298 | 3,100 |

Total remuneration is included in "staff costs" (see Note 7(b)).

### (b) Identify of related parties

| **Name of party** | **Relationship with the Target Group** |
|---|---|
| Xizi Clean Energy Equipment Manufacturing Co., Ltd. (formerly known as Hangzhou Boiler Group Co., Ltd.) | The non-controlling shareholder of the Target Group |
| Zhejiang Xizi United Engineering Co., Ltd. | Controlled by the non-controlling shareholder of the Target Group |
| Zhejiang Xizi New Energy Co., Ltd. | Controlled by the non-controlling shareholder of the Target Group |
| Hangzhou Xizi Zero Carbon Energy Co., Ltd. | Controlled by the non-controlling shareholder of the Target Group |
| Zhejiang Hangguo Jiangnan International Trading Co., Ltd. | Controlled by the non-controlling shareholder of the Target Group |

**(c) Significant related party transactions**

| | 2020 RMB'000 | 2021 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **Purchase** | | | |
| Xizi Clean Energy Equipment Manufacturing Co., Ltd. | 5,682 | 870 | 695 |
| Zhejiang Hangguo Jiangnan International Trading Co., Ltd. | – | 33 | 47 |
| | 5,682 | 903 | 742 |
| **Payment of rental** | | | |
| Zhejiang Hangguo Jiangnan International Trading Co., Ltd. | – | 745 | 755 |
| **Provision of technical and consultancy services** | | | |
| Hangzhou Xizi Zero Carbon Energy Co., Ltd. | – | 1,878 | – |
| **Payment of refundable deposits** | | | |
| Hangzhou Xizi Zero Carbon Energy Co., Ltd. | – | 8,708 | – |
| Zhejiang Hangguo Jiangnan International Trading Co., Ltd. | – | 72 | – |
| | – | 8,780 | – |

**(d) Balances with related parties**

| | 2020 RMB'000 | 2021 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **Lease liability** | | | |
| Zhejiang Hangguo Jiangnan International Trading Co., Ltd. | – | 2,510 | 1,923 |
| **Trade and other payables** | | | |
| Xizi Clean Energy Equipment Manufacturing Co., Ltd. | – | 204 | 66 |
| Zhejiang Xizi United Engineering Co., Ltd. | – | 1,721 | 1,721 |
| Zhejiang Xizi New Energy Co., Ltd. | – | 6,687 | 6,687 |
| | – | 8,612 | 8,474 |
| **Trade and other receivables** | | | |
| Hangzhou Xizi Zero Carbon Energy Co., Ltd. | – | 8,708 | 8,708 |
| Zhejiang Hangguo Jiangnan International Trading Co., Ltd. | – | 72 | 72 |
| | – | 8,780 | 8,780 |

## 27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | 31 December 2020 RMB'000 | 31 December 2021 RMB'000 | 31 December 2022 RMB'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | 21,020 | 22,192 | 18,986 |
| Intangible assets | | 649 | 597 | 546 |
| Interest in an associate | | 4,152 | 4,090 | 4,150 |
| Investments in subsidiaries | | 433,380 | 433,380 | 433,380 |
| Equity investment designated at fair value through other comprehensive income | | – | – | 996 |
| Time deposits | | 50,000 | 70,000 | 50,000 |
| | | 509,201 | 530,259 | 508,058 |
| **Current assets** | | | | |
| Trade and other receivables | | 271,869 | 379,944 | 434,674 |
| Financial assets measured at fair value through profit or loss | | 30,391 | 31,164 | – |
| Time deposits | | – | – | 70,000 |
| Cash | | 375,087 | 272,625 | 214,784 |
| | | 677,347 | 683,733 | 719,458 |

| | Note | 31 December 2020 RMB'000 | 31 December 2021 RMB'000 | 31 December 2022 RMB'000 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Other payables | | 1,344 | 10,357 | 11,372 |
| Lease liabilities | | – | 587 | 651 |
| Income tax payable | | 1,206 | 2,130 | 2,052 |
| | | 2,550 | 13,074 | 14,075 |
| **Net current assets** | | 674,797 | 670,659 | 705,383 |
| **Total assets less current liabilities** | | 1,183,998 | 1,200,918 | 1,213,441 |
| **Non-current liabilities** | | | | |
| Lease liabilities | | – | 1,923 | 1,272 |
| Deferred tax liability | | – | 157 | 106 |
| | | – | 2,080 | 1,378 |
| **NET ASSETS** | | 1,183,998 | 1,198,838 | 1,212,063 |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | *24* | 1,124,514 | 1,124,514 | 1,124,514 |
| Capital reserve | | 24,634 | 24,634 | 24,634 |
| General reserves | | 3,483 | 4,967 | 6,290 |
| Retained profits | | 31,367 | 44,723 | 56,625 |
| **TOTAL EQUITY** | | 1,183,998 | 1,198,838 | 1,212,063 |

## 28 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2020,2021 and 2022, the directors consider that the Target Group has no immediate and ultimate controlling party.

**29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022**

Up to date of issue of these financial statements, the IASB has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and have not been adopted in these financial statements. These developments include the following which may be relevant to the Target Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| IFRS 17, Insurance contracts | 1 January 2023 |
| Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies* | 1 January 2023 |
| Amendments to IAS 8, *Definition of Accounting Estimates* | 1 January 2023 |
| Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* | 1 January 2023 |
| Amendments to IAS 1, *Non-current Liabilities with Covenants* | 1 January 2024 |
| Amendments to IAS 1, *Classification of Liabilities as Current or Non-current* | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7, *Supplier Finance Arrangements* | 1 January 2024 |
| Amendments to IFRS 16, *Lease Liability in a Sale and Leaseback* | 1 January 2024 |

The Target Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

**30 SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 December 2022.

*The following discussion and analysis should be read in conjunction with the financial information of the Target Group for the three years ended 31 December 2022, as set out in Appendix II to this circular.*

## 1. OVERVIEW

The Target Company is a company established under the PRC laws with limited liability and its principal activity is investment holding. The subsidiaries of the Target Company are principally engaged in the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology. As at the Latest Practicable Date, apart from the patents and copyrights as mentioned in the paragraph "information of the Target Group" under the "Letter from the Board" to this circular, the Target Group had 2 trademarks and the necessary business license for its business operation.

As at the Latest Practicable Date, Qinghai Zhongkong is responsible for the operation of two solar thermal molten salt energy storage power stations in the city of Delingha of Qinghai Province, with operational scales of 10MW and 50MW, respectively. Gansu Yumen and Xinjiang Hami are still in the preliminary stage of feasibility study for two power station projects.

A list of the power station projects of the Target Group is shown below:

| No. | Responsible subsidiary | Location | Capacity | Operation/Construction Status |
|---|---|---|---|---|
| 1 | Qinghai Zhongkong | Delingha, Qinghai | 10MW | Commenced its operation in 2013 and currently in operation |
| 2 | Qinghai Zhongkong | Delingha, Qinghai | 50MW | Connected to the grid at the end of 2018 and currently in operation |
| 3 | Gansu Yumen | Yumen, Gansu | 100MW | Currently in the preliminary stage of feasibility study |
| 4 | Xingjiang Hami | Hami, Xinjiang | 100MW | Currently in the preliminary stage of feasibility study |

Over the past years, the solar energy industry in the PRC has been rapidly growing and it is expected such growth will be continued under the support of the PRC government through the issue of different policies and measures. For instance, pursuant to the Notice Related to Promoting the Large-scale Development of Solar Thermal Power issued by the China National Energy Administration, the new construction scale of the solar thermal power generation capacity shall reach approximately 3 million kilowatts during each year of the 14th Five-Year Plan period. Further, according to the policies and plans as mentioned in the section headed "REASON FOR AND BENEFITS OF THE PROPOSED MANDATE, THE POSSIBLE ACQUISITIONS AND THE LOAN AGREEMENT" in the "Letter from the Board" of this circular, it is also expected the demand for both the O&M services and relevant technologies related to the solar thermal power generation and energy storage will grow rapidly along with positive industry outlook.

At present, according to the management of the Target Group, the 10MW solar thermal molten salt energy storage power station of the Target Group is the first completed commercialised solar thermal molten salt energy storage power station in China and the third completed commercialised solar thermal molten salt energy storage power station in the world. Furthermore, the 50MW solar thermal molten salt energy storage power station of the Target Group is the first and only solar thermal station that can reach its annual design power generation capacity in the world. Leveraging on its past experience, market resources and technical advantages, the Target Group is expected to establish a solid market position in the fields of O&M services and molten salt energy storage technology.

The Target Group is exposed to various types of risks, including but not limited to interest risk, credit risk, liquidity risk, market risk and business risk.

**Interest risk**

The Target Group is exposed to interest risk in relation to fixed-rate instruments such as bank loans, and the Target Group currently does not have an interest rate hedging policy. However, the management of the Target Group monitors the interest rate exposure of the Target Group and will consider hedging significant interest rate exposure should the need arise.

**Credit risk**

The Target Group's exposure to credit risk is influenced mainly by the characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to customers. As at 31 December 2020, 2021 and 2022, all of the total trade receivables was due from the Target Group's largest customer.

As at 31 December 2020, 2021 and 2022, the directors of the Target Company are of the opinion that the amounts due from provincial power grid companies and tariff premium receivables are fully recoverable considering that there is no loss experienced with the grid companies in the past and the tariff premium is funded by the PRC government. The tariff premium receivables accounted for 98.8%, 98.8% and 98.5% of the Target Group's trade receivables as at December 2020, 2021 and 2022, respectively.

**Liquidity risk**

The Target Group is exposed to liquidity risk in relation to the non-derivative financial liabilities and derivative financial instruments. As at 31 December 2022, the current assets of the Target Group exceeded its current liabilities by approximately RMB650.5 million. The Target Group's liquidity policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. In view of the above, the directors of the Target Group consider the liquidity risk of the Target Group to be minimal.

**Market risk**

The Target Group is exposed to price risk in respect of its financial asset measured at fair value through profit or loss. The Target Group currently does not have a price risk hedging policy and the management of the Target Group will continue to monitor price risk exposure and consider hedging against it should the need arise.

**Business risk**

The solar energy industry, on one hand, is subject to the maturity of the relevant technologies used in solar energy, and on the other hand, is subject to the policies, regulations or plans implemented by the PRC government. In particular, any material changes on the government policies and regulations may have direct impact on the development of the entire solar energy industry. Nevertheless, the directors of the Target Group believes that China will actively promote the "3060" dual carbon target as China's solemn commitment to the world. In view of the supportive policies issued by the central government of China and the local authorities of each province in recent years, it is expected the business risk of the Target Group to be minimal.

## 2. OPERATING RESULTS

**Revenue**

The Target Group recorded a revenue of approximately RMB106.6 million, RMB107.5 million, and RMB153.0 million, respectively, for each of the years ended 31 December 2020, 2021 and 2022.

The Target Group's revenue:

(a) increased by approximately 0.9% from approximately RMB106.6 million for the year ended 31 December 2020 to approximately RMB107.5 million for the year ended 31 December 2021.

(b) increased by approximately 42.3% from approximately RMB107.5 million for the year ended 31 December 2021 to approximately RMB153.0 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase in revenue generated from the solar thermal power generation business as one of its power plants reached its annual design power generation capacity in 2022.

**Administrative expenses**

The Target Group recorded administrative expenses of approximately RMB8.2 million, RMB14.9 million, and RMB18.4 million, respectively, for each of the years ended 31 December 2020, 2021 and 2022.

The Target Group's administrative expenses:

(a) increased by approximately 81.7% from approximately RMB8.2 million for the year ended 31 December 2020 to approximately RMB14.9 million for the year ended 31 December 2021. Such increase was mainly attributable to (i) the increase in labor expenses of the Target Company and Qinghai ZhongKong of approximately 2.6 million and 1.9 million, respectively; and (ii) the increase of depreciation expenses from approximately RMB0.9 million to approximately RMB3.1 million.

(b) increased by approximately 23.5% from approximately RMB14.9 million for the year ended 31 December 2021 to approximately RMB18.4 million for the year ended 31 December 2022. Such increase was mainly attributable to (i) the increase of Qinghai Zhongkong's labor expenses from approximately RMB4.5 million to approximately RMB5.6 million; and (ii) the increase of depreciation expenses from approximately RMB3.1 million to approximately RMB3.8 million.

**Interest expenses**

The Target Group recorded interest expenses of approximately RMB35.7 million, RMB34.4 million, and RMB30.5 million, respectively, for each of the years ended 31 December 2020, 2021 and 2022.

The Target Group's interest expenses:

(a) decreased by approximately 3.8% from approximately RMB35.7 million for the year ended 31 December 2020 to approximately RMB34.4 million for the year ended 31 December 2021. Such decrease was mainly attributable to the repayment of bank loans of RMB98.0 million in 2021.

(b) decreased by approximately 11.3% from approximately RMB34.4 million for the year ended 31 December 2021 to approximately RMB30.5 million for the year ended 31 December 2022. Such decrease was mainly attributable to the reductions in the interest rates of two of the bank loans.

**Net Profit**

The Target Group recorded net profit of approximately RMB24.5 million, RMB4.5 million, and RMB45.4 million, respectively, for each of the years ended 31 December 2020, 2021 and 2022.

The Target Group's net profit:

(a) decreased by 81.6% from approximately RMB24.5 million for the year ended 31 December 2020 to approximately RMB4.5 million for the year ended 31 December 2021. Such decrease was mainly attributable to the decrease in (i) the investment income generated from the wealth management products of approximately RMB5.1 million; and (ii) the interest income generated from the cash of approximately RMB7.0 million.

(b) Increased by 908.9% from approximately RMB4.5 million for the year ended 31 December 2021 to approximately RMB45.4 million for the year ended 31 December 2022. Such substantial increase was mainly attributable to the significant increase of revenue generated from the solar thermal power generation business of Qinghai Zhongkong.

## 3. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

**Treasury Policies**

The Target Group has adopted a prudent financial management approach towards its treasury policy. The Target Group closely monitors its liquidity position to ensure that the liquidity structure of its assets, liabilities, and other commitments can meet its funding requirements. The Target Group finances its working capital primarily through funds generated from operations, paid-in capital contributed by the shareholders of the Target Company and bank borrowings.

**Cash**

The balance of cash of the Target Group as at 31 December 2020, 2021 and 2022 was approximately RMB553.5 million, RMB329.5 million and RMB442.9 million, respectively. The cash of the Target Group were denominated in RMB.

**Bank and Other Borrowings**

As at 31 December 2020, 2021 and 2022, the Target Group had bank borrowings of approximately RMB697.0 million, RMB601.1 million and RMB627.6 million, respectively, all of which were dominated in RMB. The following table sets out a breakdown of the Target Group's bank borrowings as at the dates indicated:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Current | | | |
| – Secured bank loan | 17,027 | 16,876 | 31,308 |
| – Unsecured bank loans | – | 2,251 | 611 |
| Non-current | | | |
| – Secured bank loan | 680,000 | 582,000 | 595,247 |
| – Unsecured bank loans | – | – | 400 |
| Total | 697,027 | 601,127 | 627,566 |

All borrowings were denominated in RMB. Borrowings from banks were interest bearing at variable rates of ranging from 4.80% to 4.90% per annum as at 31 December 2020; ranging from 4.80% to 4.90% per annum as at 31 December 2021; and ranging from 4.35% to 4.90% per annum as at 31

December 2022. There were no loans that were interest bearing at a fixed rate. As at 31 December 2020, 2021 and 2022, the Target Group had RMB200,000,000, nil and RMB690,797,000, respectively, of unutilised bank borrowing facilities.

**Value-Added Tax Recoverables**

The total value-added tax ("**VAT**") recoverables under the trade and other receivables as at 31 December 2020, 2021 and 2022 were approximately RMB80.0 million, RMB56.3 million and RMB0.7 million. The VAT recoverables were mainly aroused due to the purchase of service and other property, plant and equipment. Such decrease trend was mainly attributable to the refund of VAT recoverables of approximately RMB23.7 million and RMB55.6 million during 2021 and 2022 by the local tax authority of the city of Delingha, respectively.

**Hedging**

The Target Group did not (i) enter into any financial instruments for hedging purposes; and (ii) have any currency borrowings or other hedging instruments for foreign currency net investments for each of the years ended 31 December 2020, 2021 and 2022.

## 4. GEARING RATIO

The gearing ratio of the Target Group, which was calculated on the basis of its total liabilities over total assets, was approximately 47.3%, 42.9% and 41.8% as at 31 December 2020, 2021 and 2022, respectively.

## 5. CHARGE ON ASSETS

As at 31 December 2020, 2021 and 2022, the cash of nil, nil and RMB35,000,000, respectively, were pledged to bank as guarantees for issuance of bank facilities. The Target Company pledged RMB35.0 million for a credit facility from Shanghai Pudong Development Bank with the total credit amount of RMB680.0 million and with effective period from 29 January 2022 to 26 November 2034.

As at 31 December 2020, 2021 and 2022 the income receipts right in relation to the sales of electricity and property, plant and equipment, respectively, were pledged to secure certain bank loans granted to the Target Group with the amount of RMB1,078,343,000, RMB1,164,175,000 and RMB1,092,858,000.

## 6. FOREIGN EXCHANGE EXPOSURE

The Target Group conducts its business in the PRC and its business transactions are all denominated in RMB. The Target Group also uses RMB as its reporting currency. There was no financial arrangement for hedging purpose in respect of the Target Group for the three years ended 31 December 2022. Therefore, the Directors believe that the Target Group's operations have no foreign exchange risk exposure.

## 7. SIGNIFICANT INVESTMENTS

As at 31 December 2020, 2021 and 2022, the Target Group did not hold any significant investments.

## 8. MATERIAL ACQUISITIONS AND DISPOSALS

For the three years ended 31 December 2022, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures by the Target Group.

## 9. CONTINGENT LIABILITIES

As at 31 December 2020, 2021 and 2022, the Target Group did not have any material contingent liabilities.

## 10. EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, 2021 and 2022, the Target Group had a total number of approximately 132, 131 and 130 employees, respectively, based in the PRC. During the three years ended 31 December 2022, the Target Group's staff costs mainly comprised wages and salaries and pension scheme contributions, and amounted to approximately RMB18.4 million, RMB26.0 million, and RMB28.0 million, respectively.

The Target Group has not adopted any bonus and share option packages. Trainings on topics such as professional skills, production safety knowledge, and solar thermal power technology etc. are provided to the employees of the Target Group regularly.

The experiences and qualifications of the key management of the Target Group are set out below:

**Mr. Shen Hang**, aged 43, was appointed as the general manager of the Target Company in April 2022. Prior to such appointment, he served as the senior management for several departments of a solution and service provider of process automation. He received a master's degree from Zhejiang University (浙江大學) and holds a senior engineer qualification.

**Ms. Yao Qiong**, aged 51, was appointed as the technical director and head of technical department of the Target Company in June 2022. Prior to such appointment, she served as the senior management or chief engineer for several energy related companies in the PRC. She received a master's degree from Zhejiang University (浙江大學) and holds a senior engineer qualification.

**Mr. Luo Xiaoqiang**, aged 51, was appointed as the project director of the Target Company in 2019. Prior to such appointment, he served as the senior management for several for several energy related companies in the PRC. He received a bachelor's degree from Northwestern Polytechnical University (西北工業大學) and holds an intermediate engineer qualification.

**Mr. Liu Wen Chuang**, aged 38, was appointed as the general manager of Qinghai Zhongkong in August 2020. Prior to such appointment, he joined Qinghai Zhongkong in March 2013 and served as the executive deputy general manager of Qinghai Zhongkong. He was involved in the development of 20 patents of the Target Group and has obtained 15 patents. He received a bachelor's degree from University of South China (南華大學) and holds a senior engineer qualification.

**Mr. Han Huizhen**, aged 55, was appointed as the deputy general manager of Qinghai Zhongkong in March 2015. Prior to such appointment, he joined Qinghai Zhongkong in August 2012 and served as the manager of the production department of Qinghai Zhongkong. He received a college's degree from Party School of Hebei Provincial Committee (河北省委黨校) and holds an intermediate engineer qualification.

**Mr. Fan Yuhua**, aged 37, was appointed as the chief engineer and manager of quality technology development department of Qinghai Zhongkong in February 2017. Prior to such appointment, he joined Qinghai ZhongKong in March 2013 and served as the director of general division office of Qinghai Zhongkong. He received a bachelor's degree from Xi'an University of Architecture and Technology (西安建築科技大學) and holds a senior engineer qualification.

*The information set forth in this appendix does not form part of the accountants' report received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix II to this circular, and is included herein for illustrative purposes only.*

*The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group set forth in Appendix I and the accountants' report set forth in Appendix II to this circular.*

## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

### (1) Introduction

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2022 (the "**Unaudited Pro Forma Financial Information**") of Hengxin Technology Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") in connection with the possible acquisitions of equity interest of Zhejiang Zhongguang New Energy Technology Co., Ltd. and its subsidiaries (collectively the "**Target Group**") (the "**Possible Acquisitions**") which has been prepared on the basis of the notes set out below and assumes the Possible Acquisitions had been completed on 31 December 2022. The Group and the Target Group are collectively referred to as the "Enlarged Group". Details of the Possible Acquisition are set out in the section headed "Letter from the Board" contained in this circular.

The Unaudited Pro Forma Financial Information is based on (i) the consolidated statement of financial position of the Group as at 31 December 2022, which has been extracted from the published annual report for the year ended 31 December 2022; (ii) the audited statement of assets and liabilities of the Target Group as at 31 December 2022, which has been extracted from the accountants' report of the Target Group as set out in Appendix II to this circular, after making pro forma adjustments as summarised in the accompanying notes that are directly attributable to the Possible Acquisitions and factually supportable as if the Possible Acquisitions had been undertaken as at 31 December 2022.

The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the assets and liabilities of the Enlarged Group had the Possible Acquisitions been completed as of the specified dates or any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

## (2) Unaudited Pro Forma Consolidated Statement Of Assets And Liabilities of the Enlarged Group

| | The Group as at 31 December 2022 | The Target Group as at 31 December 2022 | Unaudited Pro forma adjustments | Unaudited Pro Forma Consolidated Statement of assets and Liabilities of the Enlarged Group as at 31 December 2022 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *Note 1* | *Note 2* | *Note 3* | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 212,359 | 922,170 | 67,223 | 1,201,752 |
| Intangible assets | 56,416 | 546 | 189,229 | 246,191 |
| Goodwill | 155,116 | – | 89,739 | 244,855 |
| Interest in an associate | – | 4,150 | – | 4,150 |
| Equity securities designated at fair value through other comprehensive income (FVOCI) | 5,622 | 996 | – | 6,618 |
| Financial assets measured at fair value through profit or loss (FVTPL) | 15,321 | – | – | 15,321 |
| Time deposits | – | 50,000 | – | 50,000 |
| Pledged deposits | – | 35,000 | – | 35,000 |
| Deferred tax assets | 20,244 | 32,375 | – | 52,619 |
| | **465,078** | **1,045,237** | | **1,856,506** |
| **Current assets** | | | | |
| Inventories and other contract costs | 151,587 | 933 | – | 152,520 |
| Trade and other receivables | 743,657 | 243,807 | – | 987,464 |
| Financial assets measured at fair value through profit or loss (FVTPL) | – | 6,934 | – | 6,934 |
| Time deposits | 300,000 | 70,000 | – | 370,000 |
| Cash and cash equivalents | 881,561 | 442,925 | – | 1,324,486 |
| Derivative financial asset | 456 | – | – | 456 |
| | **2,077,261** | **764,599** | | **2,841,860** |

| | The Group as at 31 December 2022 | The Target Group as at 31 December 2022 | Unaudited Pro forma adjustments | Unaudited Pro Forma Consolidated Statement of assets and Liabilities of the Enlarged Group as at 31 December 2022 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *Note 1* | *Note 2* | *Note 3* | |
| **Current liabilities** | | | | |
| Bank Loans | 228,634 | 31,919 | – | 260,553 |
| Trade and other payables | 387,960 | 79,509 | 729,200 | 1,196,669 |
| Derivative financial liability | 2,781 | – | – | 2,781 |
| Lease liabilities | 3,709 | 651 | – | 4,360 |
| Income tax payable | 9,414 | 2,052 | – | 11,466 |
| | **632,498** | **114,131** | | **1,475,829** |
| **Net current assets** | **1,444,763** | **650,468** | | **1,366,031** |
| **Total assets less current liabilities** | **1,909,841** | **1,695,705** | | **3,222,537** |
| **Non-current liabilities** | | | | |
| Bank Loans | – | 595,647 | – | 595,647 |
| Deferred income | 2,460 | 45,175 | – | 47,635 |
| Lease liabilities | 2,906 | 1,272 | – | 4,178 |
| Deferred tax liabilities | 15,645 | – | 56,217 | 71,862 |
| | **21,011** | **642,094** | | **719,322** |
| **NET ASSETS** | **1,888,830** | **1,053,611** | | **2,503,215** |

## (3) Notes to the Unaudited Pro Forma Financial Information

1. The balances of the Group were extracted from the audited consolidated statement of financial position of the Group as at 31 December 2022 which formed part of the audited annual financial information of the Group for the year ended 31 December 2022, as set out in the Company's published annual report for the year ended 31 December 2022.

2. The balances of the Target Group as at 31 December 2022 were extracted from the consolidated statement of financial position of the Target Group as at 31 December 2022 as set out in the accountant's report of the Target Group in Appendix II to this circular.

3. Upon completion of the Possible Acquisitions, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at the fair values under acquisition accounting in accordance with International Financial Reporting Standard 3 "Business Combinations" ("**IFRS 3**") issued by International Accounting Standards Board ("**IASB**").

   For the purposes of the pro forma financial information, the allocation of the purchase price is determined based on the Directors' estimates of the fair value of the identifiable assets and liabilities of the Target Group which existed as at 31 December 2022.

   The amounts of goodwill and fair values of the identifiable assets and liabilities of the Target Group are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of the Target Group on the date of completion of the Possible Acquisitions. Consequently, the resulting goodwill, the actual allocation of the purchase price at the date of completion will likely result in different amounts than those stated in the Unaudited Pro Forma Financial Information.

   The recognition of pro forma goodwill arising on the Possible Acquisitions as if the Possible Acquisitions had been completed as at 31 December 2022 is as follows:

| | | *RMB'000* |
|---|---|---|
| **Fair value of total consideration** | *(a)* | **729,200** |
| **Less: Fair value of identified net assets upon completion of the Possible Acquisitions** | | |
| – Carrying amounts of identified net assets upon completion of the Possible Acquisitions | | (1,053,611) |
| – Fair value adjustments on property, plant and equipment | *(b)* | (67,223) |
| – Fair value adjustments on intangible assets | *(b)* | (189,229) |
| – Deferred tax liabilities related to the fair value adjustment | *(b)* | 56,217 |
| | | **(1,253,846)** |
| **Add: non-controlling interest in the Target Group** | | **614,385** |
| **Goodwill arising from the Possible Acquisitions** | | **89,739** |

(a) This adjustment represents the consideration for the Possible Acquisition of RMB729,200,000, assuming no adjustment to the consideration as detailed in the section headed "Letter from the board" in this Circular, to be satisfied by cash as if the Acquisition had been completed on 31 December 2022.

(b) The Directors of the Company have determined the fair values of the identifiable assets and liabilities of the Target Group as at 31 December 2022 with reference to a valuation report in relation to the purchase price allocation of the Possible Acquisitions issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. The valuation adjustments on identifiable assets and liabilities are calculated by deducting carrying amount of identifiable assets and liabilities from the fair value of identifiable assets and liabilities as at 31 December 2022. Since the fair value of the identifiable net assets of the Target Group at the completion date of the Possible Acquisitions may substantially be different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information, the final amounts of the identifiable net assets (including intangible assets) and goodwill to be recognised in connection with the Possible Acquisitions may be different from the amounts presented above.

Adjustment of property, plant and equipment mainly represents the fair value adjustment of land use rights. Intangible assets represent the customer relationship and patent recognised arising from the Possible Acquisitions. Fair value of customer relationship of RMB174,129,000 was determined using multi-period excess earning method under the income approach. In the application of this method, contributory asset charges are taken against the after-tax cash flows available for distribution to capital providers to recognise the support of many other assets, tangible and intangible, which contribute to the realisation of those cash flows. Fair value of patents of RMB15,100,000 was determined using the cost approach.

Deferred tax liabilities is recognised for temporary differences that arise in respect of the recognised fair value adjustments on property, plant and equipment and intangible assets above.

When preparing the Pro Forma Financial Information, the Directors made preliminary assessment, with reference to International Accounting Standard 36, Impairment of Assets, issued by the IASB, as to whether or not there is any indicator of impairment on goodwill and intangible assets arising from the Possible Acquisitions. Based on such assessment, the Directors did not identify any impairment indicator in respect of the goodwill and intangible assets arising from the Possible Acquisitions.

Consistent with the accounting policies adopted by the Group in preparing the consolidated financial statements, the amount of goodwill and intangible assets arising from the Possible Acquisitions that will be initially recognised in the Company's consolidated financial statements will be determined with reference to IFRS 3 (Revised) based on the fair value of the acquired assets and liabilities at the date of completion of the Possible Acquisitions. The Directors will follow the Group's accounting policy in respect of assets impairment assessment, including the assessment of the impairment of goodwill and intangible assets arising from the Possible Acquisitions when preparing the Company's consolidated financial statements covering the period in which the Possible Acquisitions are completed. The Company's annual consolidated financial statements will be subject to audit, by the Company's auditors in accordance with Hong Kong Standards of Auditing.

The adjustments are expected to have a continuing effect on the Enlarged Group.

4. No adjustment has been made to the Unaudited Pro Forma Financial Information for acquisition-related costs (including fees to legal advisers, reporting accountants, valuer, and other expenses) as the Directors determined that such costs are insignificant.

5. No adjustment has been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2022.

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.*

KPMG

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

**TO THE DIRECTORS OF HENGXIN TECHNOLOGY LTD.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Hengxin Technology Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2022 and related notes as set out in Appendix IV to the circular dated 29 June 2023 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the possible acquisitions of Zhejiang Zhongguang New Energy Technology Co., Ltd. and its subsidiaries (collectively the "**Target Group**") (the "**Possible Acquisitions**") on the Group's assets and liabilities as at 31 December 2022 as if the Possible Acquisitions had taken place at 31 December 2022. As part of this process, information about the Group's assets and liabilities as at 31 December 2022 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

**Directors' Responsibilities for the Pro Forma Financial Information**

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

**Our Independence and Quality Management**

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

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

**Reporting Accountants' Responsibilities**

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

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

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

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2022 would have been as presented.

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

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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

**Opinion**

In our opinion:

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

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

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

KPMG
*Certified Public Accountants*
Hong Kong
29 June 2023

*The following is the text of a letter and valuation report, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connected with its valuation as at 31 December 2022 of the entire shareholders' equity in Target Company.*

JLL®
仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F, One Taikoo Place 979 King's Road, Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Company Licence No: C-030171

The Board of Directors
**Hengxin Technology Ltd.**
6th Floor, The Chinese Club Building,
21-22 Connaught Road Central,
Hong Kong

Dear Sirs,

In accordance with the instructions received from Hengxin Technology Ltd. (亨鑫科技有限公司, "**Hengxin Technology**" or the "**Company**"), we have undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100 percent equity interest in Zhejiang Zhongguang New Energy Technology Co., Ltd. (浙江中光新能源科技有限公司, "**Zhongguang**" or the "**Target**") as at 31 December 2022 (the "**Valuation Date**"). The report which follows is dated 29 June 2023 (the "**Report Date**").

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

The conclusion of value is based on the accepted valuation procedures and practices that rely substantially on our use of numerous assumptions and our consideration of various factors that are relevant to the operation of the Target. We have also considered various risks and uncertainties that have potential impact on the Target.

We do not intend to express any opinion in matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the market value of 100 percent equity interest in the Target as at the Valuation Date is RMB1,444,238,000.

The following pages outline the factors considered, methodology and assumptions employed in formulating our opinions and conclusions. Any opinions are subject to the assumptions and limiting conditions contained therein.

Yours faithfully,
For and on behalf of
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**

**Simon M.K. Chan**
*Executive Director*

## INTRODUCTION

In accordance with the instructions received from Hengxin Technology Ltd. (亨鑫科技有限公司, "**Hengxin Technology**" or the "**Company**"), we have undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100 percent equity Interest in Zhejiang Zhongguang New Energy Technology Co., Ltd. (浙江中光新能源科技有限公司, "**Zhongguang**" or the "**Target**") as at 31 December 2022 (the "**Valuation Date**"). The report which follows is dated 29 June 2023 (the "**Report Date**").

## PURPOSE OF VALUATION

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

## BASIS OF OPINION

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

## BACKGROUND

The Target is an investment holding company which holds the entire equity interest in Qinghai Zhongkong Solar Energy Generation Co., Ltd. ("**Qinghai Zhongkong**") and 75% equity interest in each of Gansu Yumen Zhongkong Solar Energy Generation Co., Ltd. ("**Gansu Yumen**") and Xinjiang Hami Zhongkong Solar Energy Generation Co., Ltd. ("**Xinjiang Hami**") as at the date of the Valuation Date. The remaining 25% equity interest in each of Gansu Yumen and Xinjiang Hami is owned by Cosin Solar Technology Co., Ltd. ("**Cosin Solar**").

Qinghai Zhongkong, Gansu Yumen and Xinjiang Hami are companies established under the PRC laws with limited liability and principally engaged in the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology.

The summary of the financial information of the Target for the year ended 31 December 2022, 31 December 2021 and 31 December 2020 are set out below:

| | Years ended 31 December | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Revenue** | 152,991 | 107,534 | 106,562 |
| **Net profit after taxation** | 45,352 | 4,473 | 24,506 |
| **Total equity** | 1,053,611 | 1,008,259 | 1,003,786 |

Hengxin Technology Ltd. and its subsidiaries (collectively as the "Group") and three transferors have entered into three conditional framework agreements which allow Hangzhou Longkong Zhongguang Enterprise Holding Enterprise Partnership (Limited Partnership) to acquire a total of 51 percent equity interest in the Target.

## APPROACH AND METHODOLOGY

In arriving the market value of 100 percent equity interest in the Target, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

***Market Approach*** considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach.

Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

***Cost Approach*** considers the cost to reproduce or replace in new condition of the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market.

Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

***Income Approach*** is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

**Selection of Valuation Approach and Methodology**

To select the most appropriate approach, we have considered the purpose of the valuation engagement and the resulting basis of value as well as the availability and reliability of information provided to us to perform an analysis. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Target. In our opinion, the cost approach is inappropriate for valuing the Target, as it does not directly incorporate information about the economic benefits contributed by the Target. The income approach is not the most optimal approach as it involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained. We have therefore relied on the market approach in determining our opinion of value.

There are two common methods under market approach, namely, guideline public companies method and guideline transaction method. Guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transaction method takes reference to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to Target's financial metrics.

In this exercise, the market value of equity interest in the Target was developed through the guideline public company method. The guideline transaction method is not adopted due to lack of sufficient recent market transactions with similar nature as the Target. The guideline public company method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple. In this Valuation, we have considered the following commonly used benchmark multiples:

| **Benchmark multiple** | **Abbreviation** | **Analysis** |
|---|---|---|
| Price to earnings | P/E | Not used. P/E is not selected as it does not capture the financial leverage and other related risk feature across the companies. |
| Price to book | P/B | Not used. P/B multiple is not selected as P/B fail to capture the intangible company-specific competencies and advantages so in general, the equity's book value has little bearing with its fair value. |
| Price to sales & Enterprise Value to Sales | P/S & EV/S | Not used. P/S & EV/S are not used in the valuation as P/S & EV/S do not take into account a company's profitability. |

| Benchmark multiple | Abbreviation | Analysis |
|---|---|---|
| Enterprise Value to EBITDA | EV/EBITDA | Adopted. EV/EBITDA is suitable for profitable companies and can factor in differences in balance sheet positions between the subject and the comparable companies. |

In this valuation, The EV/EBITDA Ratio is defined as the current enterprise value to the earnings before interest, tax, depreciation and amortization of the Target from 1 January 2022 to 31 December 2022. The EV/EBITDA Ratio is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses. It allows us to compare the Target against the comparable companies without considering how each comparable company finances its operations.

**ASSUMPTIONS**

In this exercise, we have applied the following assumptions as at the Valuation Date in deriving the market value of the 100 percent equity interest in the Target.

**General Assumptions**

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;
- The operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- The facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge; and
- We have assumed that there are no hidden or unexpected conditions associated with the Target that might adversely affect the reported values. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

**Market Multiple**

Under guideline public company method, in determining the financial multiple, a list of comparable companies was identified. The selection criteria include the followings:

- The companies are publicly listed on HKEX;
- The companies have been listed on HKEX no fewer than six months;
- The companies derive most of their revenues from the operation of solar power station;
- The companies derive most of their revenues from the operation in Mainland China;

- Sufficient data, including the EV/EBITDA ratio, on the comparable companies are available as at the Valuation Date.

The comparable companies satisfying the aforementioned criteria are:

| Ticker | Name | EV/EBITDA Ratio Before Adjustment |
|---|---|---|
| 295 HK Equity | Kong Sun Holdings Ltd | 47.88 |
| 686 HK Equity | Beijing Energy International Holding Co Ltd | 14.41 |
| 1250 HK Equity | Shandong Hi-Speed New Energy Group Ltd | 10.85 |
| 3868 HK Equity | Xinyi Energy Holdings Ltd | 11.11 |
| 1165 HK Equity | Shunfeng International Clean Energy Ltd | 21.27 |

*Data Source: Bloomberg*

The comparable companies are often of significantly different size from the Target. Larger companies are generally perceived as less risky in relation to business operation and financial performance, and thus the expected returns are lower and resulting in higher multiples. Therefore, the base multiples were adjusted to reflect the difference in size between the comparable companies and the Target.

The adjusted EV/EBITDA Ratios were calculated using the following formula:

Adjusted EV/EBITDA Ratio = $1/((1/M) + \alpha * \varepsilon * \theta)$

*Where:*

*$M$ = The Base EV/EBITDA Ratio*
*$\alpha$ = The scale factor, which converts the base measure of the benefits to an alternative measure of benefits for the comparable companies*
*$\varepsilon$ = The ratio of the equity value to the enterprise value of the comparable company*
*$\theta$ = Required adjustment in the equity discount rate for difference in size*

M is the base EV/EBITDA ratio and we take the reciprocal of M to come up with 1/M. The logic behind the pricing multiple adjustments is that the reciprocal of the base multiple represents a capitalization rate. In this valuation, the reciprocal of the base EV/EBITDA multiple represents a capitalization rate of the enterprise value.

For the parameter θ, it was used as a desired adjustment to reflect the difference in natures between the comparable companies and the Target. With reference to the 2023 SBBI® Yearbook published by Kroll Inc. (previously Duff & Phelps), size premium differentials of 0.00%-2.43% were adopted to capture how much the market capitalization of each of the comparable companies is larger than the market value of the Target.

The ratio of the market capitalization to enterprise value $\varepsilon$ was adopted as a weighting factor. As aforesaid, the logic behind this formula is that a pricing multiple is the reciprocal of the capitalization rate. In the case of an enterprise value multiple, the capitalization rate is driven by the weighted average cost of capital ("**WACC**") of the valuation subject. Since the size and country risk premium differentials "$\theta$" are applicable only to the equity portion (for a listed company, market capitalization represents the market value of its equity) but not to the debt portion of the WACC, we only adjust the equity portion of the capitalization rate in this pricing multiple adjustment formula. The ratio $\varepsilon$ was used to apply an appropriate weighting on the parameter $\theta$ so that the capitalization rate was adjusted only to the extent of its equity portion. In other words, the ratio $\varepsilon$ takes into account of the varying capital structures among the comparable companies. Market capitalization and enterprise value of comparable companies are obtained from Bloomberg.

The ratio of EBITDA to net operating profit after tax ("**NOPAT**") was used as a scale factor $\alpha$, which is applied in the adjustment of the EV/EBITDA multiple. It is considered that the base measure of the benefits for enterprise value to be NOPAT (Hitchner, 2017), which is a financial measure that shows how well a company performed through its core operations net of taxes and it excludes tax savings from existing debt and one-time losses or charges. As EV/EBITDA was adopted as the pricing multiple in this valuation, EBITDA becomes an alternative measure of the benefits for enterprise value in the pricing multiple adjustment formula. Hence, $\alpha$ was used as a scale factor for the alternative measure of benefit. EBITDA and NOPAT of comparable companies are obtained from Bloomberg.

The details of the adjustments of the comparable companies are as follows:

| **Ticker** | **Name** | **Total Adjustment ($\alpha$ * $\varepsilon$ * $\theta$)** |
|---|---|---|
| 295 HK Equity | Kong Sun Holdings Ltd | 0.00% |
| 686 HK Equity | Beijing Energy International Holding Co Ltd | 0.38% |
| 1250 HK Equity | Shandong Hi-Speed New Energy Group Ltd | 0.79% |
| 3868 HK Equity | Xinyi Energy Holdings Ltd | 3.67% |
| 1165 HK Equity | Shunfeng International Clean Energy Ltd | 0.00% |

The Adjusted EV/EBITDA Ratios of the comparable companies are shown as follows:

| **Ticker** | **Name** | **Adjusted EV/EBITDA Ratio** |
|---|---|---|
| 295 HK Equity | Kong Sun Holdings Ltd | 47.88 |
| 686 HK Equity | Beijing Energy International Holding Co Ltd | 13.66 |
| 1250 HK Equity | Shandong Hi-Speed New Energy Group Ltd | 9.99 |
| 3868 HK Equity | Xinyi Energy Holdings Ltd | 7.89 |
| 1165 HK Equity | Shunfeng International Clean Energy Ltd | 21.27 |

The median of the EV/EBITDA Ratio is calculated at 13.66 and is adopted as the EV/EBITDA Ratio for the valuation on the market value of the equity interest in the Target.

**Discount for Lack of Marketability (DLOM)**

A factor to be considered in valuing closely held companies such as the Target is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

For this exercise, the indicated discount for lack of marketability adopted for the equity interest in the Target is 15.70% as at the Valuation Date, based on a study 2022 *edition of the Stout Restricted Stock Study Companion Guide* issued by Stout Risius Ross, LLC. The study represents the most widely used and accepted database available to valuators for DLOM determination. In the study, researchers have examined 772 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through March 2022. The overall median discount for all 772 transactions in the study is 15.70%.

**Control Premiums and Discount for Lack of Control (DLOC)**

Control Premium and Discount for Lack of Control (DLOC) are applied to reflect differences between the comparables and the subject asset with regard to the ability to make decisions. A Control Premium is defined as the additional consideration that an investor would pay over a marketable minority equity value in order to own a controlling interest in the common stock of a company. The Lack of Control Discount is the reduction applied to the valuation of a minority equity position in a company due to the absence of control. Minority shareholders usually have the inability to dictate the future strategic direction of the company, the election of directors, the nature, quantum and timing of their return on investment, or even the sale of their own shares. This absence of control reduces the value of the minority equity position against the total enterprise value of the company. As the Company intended to acquire 100 percent equity interest in the Target, which reflects a controlling interest, a control premium is adopted to calculate the market value of the Target.

Based on the Mergerstat Control Premium Study (4th Quarter 2022) published by FactSet Mergerstat, LLC., the control premium of 22.60% is adopted in this valuation. The Control Premium Study published by FactSet Mergerstat, LLC. is a widely accepted sources among valuers.

## CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account the two factors, including the DLOM and control premium. The calculation of the market value of the 100 percent equity interest in the Target as at the Valuation Date is as follows:

| | **As at 31 December 2022** *(RMB)* |
|---|---:|
| EBITDA of the Target* | 106,795,000 |
| Adjusted EV/EBITDA Ratio | 13.66 |
| **Enterprise Value of the Target** | **1,458,465,771** |
| *Add: BS-Cash and cash equivalents** | 569,859,000 |
| *Less: BS-Preferred Equity** | – |
| *Less: BS-Minority Interest** | (1,436,000) |
| *Less: BS-Borrowing Debt and Lease Liabilities** | (629,489,000) |
| **100 Percent Equity Interest in Target (marketable, non-controlling)** | **1,397,399,771** |
| Add: Control Premium (22.60%) | 315,812,348 |
| **100 Percent Equity Interest in Target (marketable, controlling)** | **1,713,212,120** |
| Less: Discount for Lack of Marketability (15.70%) | (268,974,303) |
| **100 Percent Equity Interest in Target (non-marketable, controlling)** | **1,444,237,817** |
| **Appraised percentage of equity interest in Target** | **100%** |
| 100 percent equity Interest in Target (non-marketable, controlling) | 1,444,237,817 |
| **Market Value of 100 percent equity Interest in Target** | **1,444,238,000** |

* The trailing 12 months EBITDA of the Target is based on the audited financial figures for the 12 months ended 31 December 2022 extracted from the accountants' report of the Target. It is calculated as follows:

| | **2022.1-12** *(RMB)* |
|---|---:|
| Revenue | 152,991,000 |
| – Cost of sales | 57,374,000 |
| – Administrative expenses | 18,425,000 |
| – Other operating expenses | 11,145,000 |
| **EBIT** | **66,047,000** |
| + Depreciation of property, plant and equipment and right-of-use assets | 40,697,000 |
| + Amortization of intangible assets | 51,000 |
| **EBITDA** | **106,795,000** |

The figures of cash and cash equivalents (including cash, time deposits and financial assets measured at fair value through profit or loss), preferred equity, minority interest, borrowing debt and lease liabilities were all extracted from the accountants' report of the Target.

## VALUATION COMMENTS

The valuation of the market value of equity interest in the Target requires consideration of all relevant factors affecting the operation of the business related to the Target and its ability to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

– The nature of the business;

– The financial condition of the business and the economic outlook in general; and,

– The financial and business risk of the enterprise including the continuity of income and the projected future results.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. In particular, details about the assumptions can be found under the heading "Assumptions" in this Report. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

## OPINION OF VALUE

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the market value of 100 percent equity interest in the Target as at the Valuation Date is reasonably stated as follows:

| **Zhongguang** | **Market Value** *(RMB)* |
|---|---|
| 100 percent equity interest | 1,444,238,000 |

**LIMITING CONDITIONS**

This report and opinion of value are subject to our Limiting Conditions as attached.

Yours faithfully,
For and on behalf of
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**

**Simon M.K. Chan**
*Executive Director*

**LIMITING CONDITIONS**

1. In the preparation of this Report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Client/Target Company and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our Report was used as part of the analysis of the Client/Target Company in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the Subject rests solely with the Client.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The board of directors and the management of Client/Target Company have reviewed this Report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the Report is subject to the terms of the Agreement and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the Subject.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Client/Target Company

because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This Report has been prepared solely for internal use purpose. The Report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This Report is confidential to the Client and the calculation of values expressed herein is valid only for the purpose stated in the Agreement as at the Valuation Date. In accordance with our standard practice, we must state that this Report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by parties interested in the Subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. The Client/Target Company agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.

15. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Client/Target Company and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

16. This Report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the Report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Client/Target Company and other sources. Actual transactions involving the Subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time. The transaction amount does not need to be close to the result as estimated in this report.

17. The board of directors, management, staff, and representatives of the Client/Target Company have confirmed to us that they are independent to JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Client/Target Company and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors and chief executive of the Company

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

Long positions in the Company:

| Name of Directors | Capacity and nature of interests | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|---|---|---:|---:|
| Mr. Cui Wei(1) | Deemed interest and interest in controlled corporation | 108,868,662 | 28.06% |
| Ms. Zhang Zhong(2) | Deemed interest and interest in controlled corporation | 15,944,525 | 4.11% |
| Mr. Du Xiping | Beneficial owner | 11,468,000 | 2.96% |

*Notes:*

(1) Mr. Cui Wei beneficially owns the entire issued share capital of Kingever Enterprises Limited ("Kingever"), and Kingever in turn holds approximately 28.06% of the total issued share capital in the Company.

(2) Ms. Zhang Zhong beneficially owns the entire issued share capital of Wellahead Holdings Limited ("Wellahead"). and Wellahead in turn holds approximately 4.11% of the total issued share capital in the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive of the Company nor their associates, had any other interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company or the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers contained in the Listing Rules.

**(b) Substantial Shareholders and persons having 5% or more shareholding**

As at the Latest Practicable Date, the register of substantial shareholders maintained under Section 336 of the SFO shown that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and the chief executive of the Company.

Long positions in the Company:

| Name of substantial shareholders | Capacity and nature of interests | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Kingever *(Note)* | Beneficial owner | 108,868,662 | 28.06% |
| Mr. Cui Wei *(Note)* | Deemed interest and interest in controlled corporation | 108,868,662 | 28.06% |

*Note:* Mr. Cui Wei beneficially owns the entire issued share capital of Kingever, and Kingever in turn holds approximately 28.06% of the total issued share capital in the Company.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing service contract or proposed service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## 4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date:

(a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting which was significant in relation to the business of the Enlarged Group; and

(b) none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 5. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

## 6. EXPERT

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

| **Name** | **Qualification** |
|---|---|
| KPMG | Certified Public Accountants |
| Jones Lang LaSalle Corporate Appraisal and Advisory Limited | Independent Valuer |
| Dakin Capital Limited | a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO |

Each of the experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

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

As at the Latest Practicable Date, each of the experts did not have, directly or indirectly, any interest in any assets which had since 31 December 2022 (being the date to which the latest published consolidated audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

## 7. DOCUMENTS ON DISPLAY

Electronic copies of the following documents are on display and are published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hengxin.com.sg) for a period of 14 days from the date of this circular:

(a) the Equity Transfer Agreement I;

(b) the Equity Transfer Agreement II;

(c) the Loan Agreement;

(d) the Partnership Agreement;

(e) the material contracts referred to in the paragraph headed "9. Material contracts" below in this appendix;

(f) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out from pages 24 to 25 of this circular;

(g) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out from pages 26 to 60 of this circular;

(h) the report from KPMG on the financial information of the Target Group, the text of which is set out in Appendix II to this circular;

(i) the report from KPMG on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(j) the valuation report in respect of the Target Company's equity interest, the text of which is set out in Appendix V to this circular;

(k) the written consents from the experts referred to in the paragraph headed "6. Expert" above in this appendix; and

(l) this circular.

## 8. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Enlarged Group.

## 9. MATERIAL CONTRACTS

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

- a conditional equity transfer agreement entered into between the Partnership and Gongqing City on 31 May 2023, pursuant to which the Partnership has conditionally agreed to acquire and Gongqing City has conditionally agreed to sell approximately 4.45% equity interest of the Target Company at the consideration of approximately RMB63.6 million;

- a conditional equity transfer agreement entered into between the Partnership and Hangzhou Jingneng on 31 May 2023, pursuant to which the Partnership has conditionally agreed to acquire, and Hangzhou Jingneng has conditionally agreed to sell approximately 2.09% equity interest of the Target Company at the consideration of approximately RMB29.9 million;

- a loan agreement entered into between Xin Ke Xin and Nanjing Zhangyu on 31 May 2023, pursuant to which Xin Ke Xin agreed to provide a loan to Nanjing Zhangyu in the principal amount of RMB210 million for a term of one year commencing from the date of the drawdown of the Loan;

- a loan agreement entered into between Xin Ke Xin and Nanjing Zhangyu on 28 April 2023, pursuant to which Xin Ke Xin agreed to provide a loan to Nanjing Zhangyu in the principal amount of RMB40 million for a term of one year commencing from the date of the agreement;

- a partnership agreement and its supplemental agreement entered into between Nanjing Zhangyu as the general partner and Cosin Solar as the limited partner on 21 April 2023, pursuant to which the formation of partnership named Hangzhou Longkong Zhongguang Enterprise Holding Enterprise Partnership (Limited Partnership)* (杭州龍控中光企業控股合夥企業(有限合夥)) by way of capital contribution;

- a corporate guarantee provided by the Target Company on 14 December 2022 in favour of Bank of China Limited (Haixi Branch)* (中國銀行海西支行), for a credit facility of up to RMB50 million provided by Bank of China Limited (Haixi Branch)* (中國銀行海西支行) as lender to Qinghai Zhongkong as borrower;

- an equity purchase agreement entered into between Xin Ke Xin and Xuzhou Jingkan Management Consulting Partnership (Limited Liability Partnership)* (徐州錦瞰管理諮詢合夥企業 (有限合夥) ("**Xuzhou Jingkan**") on 5 May 2022, pursuant to which Xin Ke Xin agreed to acquire, and Xuzhou Jingkan agreed to sell 51% equity interest in Nanjing Zhangyu and 51% equity interest in Shanghai Zhangyu, at the consideration of RMB225 million; and

- a corporate guarantee provided by the Target Company on 21 January 2022 in favour of Shanghai Pudong Development Bank Co., Ltd. (Hangzhou New City Branch)* (上海浦東發展銀行杭州新城支行) for the period between 21 January 2022 and 21 January 2035, for a loan in an amount up to RMB645 million advanced by Shanghai Pudong Development Bank Co., Ltd. (Hangzhou New City Branch)* (上海浦東發展銀行杭州新城支行) as lender to Qinghai Zhongkong as borrower.

## 10. MISCELLANEOUS

Mr. Chua Kern (who is a practicing solicitor in Singapore and a member of each of The Law Society of Singapore and Singapore Academy of Law) and Mr. Chan Ting (who is qualified to practise as solicitor in Hong Kong) are the joint company secretaries of the Company.

The registered office of the Company is at 5 Tampines Central 1, #06-05 Tampines Plaza 2, Singapore 529541. The principal share registrar and transfer agent of the Company in Singapore is Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632. The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. The head office and principal place of business of the Company in Singapore is 5 Tampines Central 1, #06-05 Tampines Plaza 2, Singapore 529541.

The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the event of inconsistency

# HENGXIN TECHNOLOGY LTD.
# 亨鑫科技有限公司*

*(carrying on business in Hong Kong as HX Singapore Ltd.)*
*(incorporated in Republic of Singapore with limited liability)*
**(Stock Code: 1085)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the "**Meeting**") of the members of Hengxin Technology Ltd. (the "**Company**") will be held at 11:00 a.m. on 19 July 2023 (Wednesday) at Unit 08, 43/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong for the purposes of considering, and if thought fit, passing (with or without modifications) the following resolutions as ordinary resolutions:

### ORDINARY RESOLUTIONS

**"1. ACQUISITIONS**

**THAT:**

(a) (i) the general mandate which shall remain valid for 12 months after the date of approval of this resolution to the directors of the Company (the "**Directors**") to enter into and complete the equity transfer agreement to be made between Hangzhou Longkong Zhongguang Enterprise Holding Enterprise Partnership (Limited Partnership)* (杭州龍控中光企業控股合夥企業(有限合夥)) (the "**Partnership**") as purchaser and Hangzhou Heda Financial Services Co., Ltd. (杭州和達金融服務有限公司) as vendor (the "**Standard Agreement**") (a copy of the final draft of which has been produced at the meeting and marked "A" for identification purpose), upon successful winning of the bid submitted by the Partnership at the public tender through Hangzhou Equity Exchange, in relation to the transfer of approximately 44.46% equity interest of Zhejiang Zhongguang New Energy Technology Co., Ltd.* (浙江中光新能源科技有限公司) (the "**Target Company**") and to issue the capital contribution notice by Nanjing Zhangyu Information Technology Co., Ltd* (南京掌御信息科技有限公司) ("**Nanjing Zhangyu**") and commit Nanjing Zhangyu's capital contribution related to formation of the Partnership under the partnership agreement and its supplemental agreement both dated 21 April 2023 and entered into between Nanjing Zhangyu as the general partner and Cosin Solar Technology Co., Ltd. (浙江可勝技術股份有限公司) as the limited partner (the "**Partnership Agreement**") (copies of which have been produced at the meeting and respectively marked "B1" and "B2" for identification purpose); (ii) the conditional equity transfer agreement dated 31 May 2023 and entered into between the Partnership as purchaser and Gongqing City Shengmei Investment Management Enterprise Partnership (Limited Partnership)* (共青城盛美投資管理合夥企業(有限合夥)) as vendor for the acquisition of 4.45% equity interest of the Target

Company (the "**Equity Transfer Agreement I**") (a copy of which has been produced at the meeting and marked "C" for identification purpose); (iii) the conditional equity transfer agreement dated 31 May 2023 and entered into between the Partnership as purchaser and Hangzhou Jingneng Huichu Enterprise Management Enterprise Partnership (Limited Partnership)* (杭州淨能慧儲企業管理合夥企業(有限合夥)) as vendor for the acquisition of 2.09% equity interest of the Target Company (the "**Equity Transfer Agreement II**") (a copy of which has been produced at the meeting and marked"D"for identification purpose); and (iv) the transactions contemplated by the Standard Agreement, the Partnership Agreement, the Equity Transfer Agreement I and the Equity Transfer Agreement II (collectively, the "**Transaction Agreements**") be and are hereby approved, confirmed and ratified; and

(b) the directors of the Company be and are hereby authorised to, for and on behalf of the Company, do all such acts and things and sign, seal, execute and deliver all such documents as they may consider necessary, desirable or expedient for the purpose of or in connection with or to give effect to the Transaction Agreements and the transactions contemplated thereby, and to waive compliance from or agree and make such amendments of non-material nature to the terms of any of the Transaction Agreements that the Directors may in their discretion consider to be desirable and in the interests of the Company and its shareholders as a whole."

**"2. LOAN AGREEMENT**

**THAT:**

(a) the conditional loan agreement dated 31 May 2023 and entered into between Xin Ke Xin (Suzhou) Technology Co., Ltd.* (鑫科芯(蘇州)科技有限公司) as lender and Nanjing Zhangyu as borrower for the provision of the loan in the principal amount of RMB210,000,000 to Nanjing Zhangyu (the "**Loan Agreement**") (a copy of which has been produced at the meeting and marked "E" for identification purpose) and the transactions contemplated thereby be and are hereby approved, confirmed and ratified; and

(b) the Directors be and are hereby authorised to, for and on behalf of the Company, do all such acts and things and sign, seal, execute and deliver all such documents as they may consider necessary, desirable or expedient for the purpose of or in connection with or to give effect to the Loan Agreement and the transactions contemplated thereby, and to waive compliance from or agree and make such amendments of non-material nature to the terms of the Loan Agreement that the Directors may in their discretion consider to be desirable and in the interests of the Company and its shareholders as a whole."

* *For identification purpose only*

By Order of the Board
**Hengxin Technology Ltd.**
**Cui Wei**
*Chairman*

Singapore, 29 June 2023

*Notes:*

1. A member of the Company (the "**Member**") entitled to attend and vote at the Meeting is entitled to appoint proxies to attend and vote in his/her stead. A proxy need not be a Member. Where a Member appoints more than one (1) proxy, the Member shall specify the proportion of his/her shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.

2. The instrument appointing a proxy, and if the instrument appointing a proxy is signed by an attorney, the letter or power of attorney or a duly certified copy thereof, must be deposited at the Company's Principal Share Registrar in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632 (for Shareholders registered in Singapore), or at the office of the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for Shareholders registered in Hong Kong), as soon as possible and in any event not later than forty-eight (48) hours before the time appointed for holding the Meeting (or at any adjournment thereof).

3. If a Member is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

4. Completion and return of the proxy form will not preclude a Member from attending and voting in person at the Meeting or any adjournment thereof should he/she so wish, and in such event, the proxy form shall be deemed to be revoked.

5. The Principal Share Registrar and Branch Share Registrar of the Company will be closed from 14 July 2023 (Friday) to 19 July 2023 (Wednesday) (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending the Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Principal Share Registrar in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632 (for Shareholders registered in Singapore), or at the office of the Company's Branch Share Registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for Shareholders registered in Hong Kong) not later than 4:30 p.m. on 13 July 2023 (Thursday). Any removal of Shares from the Company's Principal Share Registrar in Singapore to the Branch Share Registrar in Hong Kong for the purpose of attending the EGM shall be made not later than 4:30 p.m. on 7 July 2023 (Friday).

* *For identification purpose only.*