

28 January 2025

To: The independent board committee of Shandong Hi-Speed New Energy Group Limited

Dear Sir/Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED
FOR AND ON BEHALF OF SHANDONG HI-SPEED HOLDINGS GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF SHANDONG HI-SPEED NEW
ENERGY GROUP LIMITED AND
TO CANCEL ALL THE OUTSTANDING SHARE OPTIONS OF SHANDONG
HI-SPEED NEW ENERGY GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the SHNE Independent Financial Adviser to advise the SHNE Independent Board Committee in respect of the Offers, details of which are set out in the Composite Document dated 28 January 2025 jointly issued by SHNE and the Offeror to the SHNE Independent Shareholders and the SHNE Offer Optionholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

With reference to the letter from the SHNE Board (the "Board Letter") contained in the Composite Document, the Offeror (as purchaser) and the Vendors (as vendors) entered into the Sale and Purchase Agreement dated 13 November 2024, pursuant to which the Offeror conditionally agreed to acquire from the Vendors and the Vendors conditionally agreed to sell to the Offeror the Sale Shares (representing approximately 13.52% of the total issued share capital of SHNE as at the Latest Practicable Date) at the Consideration (equivalent to HK\$1.78 per Sale Share).

With reference to the Board Letter, immediately after the Completion (which took place on 27 December 2024), the Offeror is required to make (i) a mandatory unconditional cash offer for all the issued SHNE Shares (other than those already owned and/or agreed to be acquired by the Offeror and parties acting in concert with it) under Rule 26.1 of the

Takeovers Code; and (ii) an appropriate cash offer to the SHNE Offer Optionholders to cancel all the Offer Options under Rule 13 of the Takeovers Code. Huatai Financial is making the Offers for and on behalf of the Offeror and in compliance with the Takeovers Code.

The SHNE Independent Board Committee comprising all the independent non-executive SHNE Directors, namely Professor Qin Si Zhao, Mr. Victor Huang, Mr. Yang Xiangliang and Mr. Chiu Kung Chik has been established to make a recommendation to the SHNE Independent Shareholders and the SHNE Offer Optionholders in respect of the Offers as to whether the Offers are fair and reasonable and as to acceptance of the Offers. We, Gram Capital Limited, have been appointed as the SHNE Independent Financial Adviser to advise the SHNE Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the SHNE Independent Board Committee in connection with its consideration of the Offers pursuant to Rule 2.1 of the Takeovers Code. The appointment of Gram Capital Limited as the SHNE Independent Financial Adviser has been approved by the SHNE Independent Board Committee.

INDEPENDENCE

There was no relationship or interests between Gram Capital and SHNE, SDHG, and their respective controlling shareholders; and Gram Capital was not in the same group as the financial or other professional advisers (including a stockbroker) to SHNE or SDHG, during the past two years immediately preceding 27 November 2024 up to and including the Latest Practicable Date, of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect the objectivity of Gram Capital's advice and to act as the SHNE Independent Financial Adviser to the SHNE Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the SHNE Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the SHNE Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the SHNE Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the SHNE Directors and the Offeror (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by SHNE, its advisers, the SHNE Directors and/or the Offeror (where applicable), which have been provided to us. Our opinion is based on the SHNE Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Offers.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.84 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the sections headed "1. RESPONSIBILITY STATEMENTS" of Appendix III and "1. RESPONSIBILITY STATEMENT" of Appendix IV to the Composite Document. We, as the SHNE Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice.

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 SHNE, the Offeror or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the SHNE Group or the SHNE Shareholders as a result of the Offers. SHNE has been separately advised by its own professional advisers with respect to the Offers and the preparation of the Composite Document (other than this letter).

We have assumed that the Offers will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Offers, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offers. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Offers, we have taken into consideration the following principal factors and reasons:

(1) Background and terms of the Offers

According to the Composite Document, Huatai Financial, for and on behalf of the Offeror and in compliance with the Takeovers Code, is making the Offers on the following basis:

For each Offer Share HK\$1.78 in cash

The Share Offer Price of HK\$1.78 per Offer Share under the Share Offer equals to the price per Sale Share paid by the Offeror for the Sale Shares under the Sale and Purchase Agreement.

For the cancellation of each Offer Option HK\$0.0001 in cash

Since the exercise price of the outstanding SHNE Options of HK\$4.00 each is above the Share Offer Price of HK\$1.78 per Offer Share, the outstanding SHNE Options are out-of-money and the SHNE Option Offer Price for the cancellation of each Offer Option will be a nominal value of HK\$0.0001.

With reference to the “Letter from Huatai Financial” contained in the Composite Document (the “Letter from Huatai Financial”), as at the Latest Practicable Date, there were 2,246,588,726 SHNE Shares in issue and 19,010,000 outstanding SHNE Options granted under the Share Option Scheme, entitling the SHNE Offer Optionholders to subscribe for an aggregate of 19,010,000 SHNE Shares at an exercise price of HK\$4.00. Particularly, 7,604,000 of the outstanding SHNE Options have been vested. Pursuant to the terms of the Share Option Scheme, in the event a general offer is made to the SHNE Shareholders (and such offer becomes or is declared unconditional), all the SHNE Offer Optionholders (holding vested or unvested SHNE Options) shall be entitled to exercise the SHNE Options in full. Save as disclosed above, as at the Latest Practicable Date, there were no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of SHNE in issue.

Further details of the Offers are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance.

(2) Information on the SHNE Group

With reference to the Board Letter, SHNE is a company incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of the Stock Exchange (Stock Code: 1250). The principal activity of SHNE is investment holding. The SHNE Group is principally engaged in the investment, development, construction, operation and management of photovoltaic power businesses, wind power businesses and clean heat supply businesses in the PRC.

Financial performance

Set out below is a summary of the SHNE Group's audited consolidated financial information for each of the two years ended 31 December 2023 as extracted from SHNE's annual report for the year ended 31 December 2023 (the "2023 Annual Report"):

	For the year ended 31 December 2023 ("FY2023") HK\$'000	For the year ended 31 December 2022 ("FY2022") HK\$'000	Year on year change %
Revenue	4,963,431	5,296,197	(6.28)
– Sale of electricity-photovoltaic power business (the "Photovoltaic Power Business")	3,005,082	2,998,391	0.22
– Sale of electricity-wind power business (the "Wind Power Business")	1,057,193	750,676	40.83
– Entrusted operation services	119,903	220,430	(45.60)
– Construction and related services	137,550	403,139	(65.88)
– Provision of clean heat supply services	643,703	923,561	(30.30)
Gross profit	2,411,210	2,560,495	(5.83)
Profit attributable to equity holders of SHNE	378,198	258,236	46.45
<i>The following items are included in the profit attributable to equity holders of SHNE:</i>			
Other income and net gains	585,288	218,946	167.32
Administrative expenses	(482,710)	(512,818)	(5.87)
Other net operating expenses	(247,723)	(207,631)	19.31
Finance costs	(1,517,497)	(1,803,324)	(15.85)
Share of profits/(losses) of joint ventures and associates	(114,499)	30,303	N/A
Income tax expenses	(242,832)	(57,655)	321.18

	As at 31 December 2023 HK\$'000	As at 31 December 2022 HK\$'000	Year on year change %
Equity attributable to equity holders of SHNE	14,394,006	14,556,221	(1.11)

As depicted from the above table, the SHNE Group's revenue for FY2023 decreased by approximately 6.28% as compared to that for FY2022. With reference to the 2023 Annual Report and as advised by the SHNE Directors, such decrease was mainly attributable to (i) decrease in revenue from entrusted operation services as a result of acquisition of projects under entrusted operation services (such acquired projects became the SHNE Group's self-owned projects and thus their revenue were subsequently recorded under the Wind Power Business); (ii) decrease in revenue from construction and related services resulted from optimization of the SHNE Group's business structure to prioritize construction of the SHNE Group's self-owned photovoltaic and wind power projects; (iii) decrease in revenue from provision of clean heat supply services due to net effect of exit operations of certain projects held and/or managed by the SHNE Group, resulting in the decrease in both aggregate actual clean heat supply area (in terms of floor area) and number of clean heat supply services users (in terms of households); and (iv) report conversion difference arising from exchange rate fluctuation due to RMB depreciation against HK\$ (SHNE adopted the exchange rate of approximately RMB1:HK\$1.1655 for its FY2022 consolidated statement of profit or loss and approximately RMB1:HK\$1.1062 for its FY2023 consolidated statement of profit or loss, representing a decrease of approximately 5.09%), partially offset by increase in revenue from the Wind Power Business as the SHNE Group made considerable progress in wind power plant projects, adding six new wind power plants as compared to FY2022. Alongside the aforementioned decrease in the SHNE Group's revenue, the SHNE Group's gross profit also decreased by approximately 5.83% from FY2022 to FY2023.

Despite the decreases in the SHNE Group's revenue and gross profit, the profit attributable to equity holders of SHNE for FY2023 increased by approximately 46.45% as compared to that for FY2022. With reference to 2023 Annual Report, such increase was mainly attributable to (i) increase in revenue from the Wind Power Business resulted from business expansion (including the acquisition of projects that were under entrusted operation); (ii) the one-off gain on bargain purchase recorded under other income and gains resulted from the SHNE Group's acquisition of a number of companies engaged in the Wind Power Business with considerations lower than the targets' fair value recognised in their financial statements as at acquisition dates; (iii) decrease in administrative expenses due to the cost control and efficiency enhancement of the SHNE Group; and (iv) decrease in finance costs as a result of replacement of high-cost financing with low-cost financing by

the SHNE Group, partially offset by the turnaround from share of profits of joint ventures and associates for FY2022 to share of losses of joint ventures and associates for FY2023 and increase in the income tax expense.

Set out below is a summary of the SHNE Group's unaudited consolidated financial information for the six months ended 30 June 2024 (with comparative figures in 2023) as extracted from SHNE's interim report for the six months ended 30 June 2024 (the "2024 Interim Report"):

	For the six months ended 30 June 2024 ("1H2024") HK\$'000	For the six months ended 30 June 2023 ("1H2023") HK\$'000	Year on year change %
Revenue	2,606,014	2,769,414	(5.90)
– Photovoltaic Power Business	1,453,638	1,598,036	(9.04)
– Wind Power Business	728,969	654,934	11.30
– Entrusted operation services	22,916	73,397	(68.78)
– Construction and related services	26,895	60,647	(55.65)
– Provision of clean heat supply services	373,596	382,400	(2.30)
Gross profit	1,326,736	1,489,031	(10.90)
Profit attributable to equity holders of SHNE	298,981	359,530	(16.84)
<i>The following items are included in the profit attributable to equity holders of SHNE:</i>			
Other income and net gains	181,853	114,589	58.70
Administrative expenses	(256,259)	(228,714)	12.04
Other net operating expenses	(15,774)	(79,438)	(80.14)
Finance costs	(719,307)	(781,168)	(7.92)
Share of losses of joint ventures and associates	(7,920)	(77,246)	(89.75)
Income tax expenses	(107,470)	(79,401)	35.35
	As at 30 June 2024 HK\$'000	As at 31 December 2023 HK\$'000	Year on year change %
Equity attributable to equity holders of SHNE	14,219,700	14,394,006	(1.21)

As depicted from the above table, the SHNE Group's revenue for 1H2024 decreased by approximately 5.90% as compared to that for 1H2023. With reference to 2024 Interim Report and as advised by the SHNE Directors, such decrease was mainly attributable to (i) decrease in revenue from the Photovoltaic Power Business as a result of greater grid curtailment by electricity grid companies in the PRC (which limited the electricity generated by power plants that could be fed into the grid, thus hindered the Group's sale of electricity) and decrease in consolidated tariffs (including tariff subsidies from the PRC government authority) of certain projects; (ii) decrease in revenue from entrusted operation services as a result of acquisition of projects under entrusted operation services (such acquired projects became the SHNE Group's self-owned projects and thus their revenue were subsequently recorded under the Wind Power Business); (iii) decrease in revenue from construction and related services resulted from optimization of the SHNE Group's business structure to prioritize the construction of the SHNE Group's self-owned photovoltaic and wind power projects; and (iv) report conversion difference arising from exchange rate fluctuation due to RMB depreciation against HK\$ (SHNE adopted the exchange rate of approximately RMB1:HK\$1.1317 for its 1H2023 condensed consolidated statement of profit or loss and approximately RMB1:HK\$1.0837 for its 1H2024 condensed consolidated statement of profit or loss, representing a decrease of approximately 4.25%), partially offset by increase in revenue from the Wind Power Business resulting from business expansion.

Alongside the aforementioned decrease in the SHNE Group's revenue and decrease in the gross profit margin of the SHNE Group's Photovoltaic Power Business (gross profit margin decreased from approximately 63.0% for 1H2023 to approximately 58.6% for 1H2024), Wind Power Business (gross profit margin decreased from approximately 58.3% for 1H2023 to approximately 55.8% for 1H2024) and entrusted operation services (gross profit margin decreased from approximately 51.7% for 1H2023 to approximately 33.1% for 1H2024) due to (i) greater grid curtailment by electricity grid companies in the PRC (which limited the electricity generated by power plants that could be fed into the grid, thus hindered the Group's sale of electricity) and decrease in consolidated tariffs (including tariff subsidies from the PRC government authority) of certain projects; and (ii) the low gross profit margin of certain newly acquired/self-built and commissioned power plants of the Photovoltaic Power Business and the Wind Power Business that are not entitled to tariff subsidies from the PRC government authority, the SHNE Group's gross profit also decreased by approximately 10.90% from 1H2023 to 1H2024.

The profit attributable to equity holders of SHNE for 1H2024 also decreased by approximately 16.84% as compared to that for 1H2023. With reference to 2024 Interim Report and as advised by SHNE Directors, such decrease was attributable to decrease in gross profit as discussed in the previous paragraph and increase in income tax expense, partially offset by (i) decrease in finance costs resulting from the replacement of high-cost financing with low-cost financing and advance repayment of high-cost overseas borrowings by the SHNE Group; (ii) increase in net foreign exchange gains and the reversal of impairment of financial assets recorded under other income and net gains; (iii) decrease in other net operating expenses resulting from the absence of fair value losses on financial assets at fair value through profit or loss; and (iv) decrease in share of losses of joint ventures and associates.

With reference to 2024 Interim Report, since entering the ecosystem of SDHS Group in May 2022, the SHNE Group has achieved remarkable results (in terms of on-grid capacity and aggregate power generation) in high-quality development and standardized management, and fully integrated into the development trend of the new energy industry. With the continuous and comprehensive empowerment of the SHNE Group by its controlling shareholder SDHG, the SHNE Group has continued to optimise its industrial layout and deepen reform and innovation, and its production and operations have continued to improve as illustrated through the continuous increase in on-grid capacity and aggregate power generation.

Set out below is a summary of photovoltaic and wind power plants held by the SHNE Group (over 98% of which are located in the PRC) according to SHNE's interim report for 1H2023, the 2023 Annual Report and the 2024 Interim Report:

	Approximate total on-grid capacity as at 30 June 2024 MW	Approximate total on-grid capacity as at 30 June 2023 MW	Approximate total on-grid capacity as at 30 June 2022 MW	Change from 30 June 2022 to 30 June 2024 %
Photovoltaic power	3,422	3,162	3,006	13.8
Wind power	1,176	790	588	100.0
Total	<u>4,598</u>	<u>3,952</u>	<u>3,594</u>	<u>27.9</u>

	Approximate aggregate power generation for FY2023 MWh	Approximate aggregate power generation for FY2022 MWh	Change %
Photovoltaic Power	2,930,309	2,921,286	0.3
Wind Power	2,070,106	1,437,519	44.0
Total	<u>5,000,415</u>	<u>4,358,805</u>	<u>14.7</u>

	Approximate aggregate power generation for 1H2024 MWh	Approximate aggregate power generation for 1H2023 MWh	Change %
Photovoltaic Power	1,496,021	1,493,448	0.2
Wind Power	1,530,719	1,151,334	33.0
Total	<u>3,026,740</u>	<u>2,644,782</u>	<u>14.4</u>

Outlook and industry overview

As illustrated in the section headed “(2) Information on the SHNE Group” above, over 80% of the SHNE Group’s revenue for FY2023 and 1H2024 was derived from the Photovoltaic Power Business and the Wind Power Business through operation of its photovoltaic and wind power plants which are mostly located in the PRC.

Set out below are the electricity consumption and generation in the PRC during the five years ended 31 December 2023, being the latest five full-year statistics published by the National Energy Administration and the National Bureau of Statistics of the PRC respectively:

	2019	2020	2021	2022	2023
Electricity consumption in the PRC					
(million megawatt-hour (“MWh”))	7,225.5	7,511.0	8,312.8	8,637.2	9,224.1
Year-on-year growth		4.0%	10.7%	3.9%	6.8%
Electricity generation in the PRC					
(million MWh)	7,503.4	7,779.1	8,534.3	8,848.7	9,456.4
Year-on-year growth		3.7%	9.7%	3.7%	6.9%

As shown in the table above:

- Electricity consumption in the PRC grew steadily from approximately 7,255.5 million MWh in 2019 to approximately 9,224.1 million MWh in 2023, representing a compound annual growth rate (“CAGR”) of approximately 6.3%.
- Electricity generation in the PRC grew steadily from approximately 7,503.4 million MWh in 2019 to approximately 9,456.4 million MWh in 2023, representing a CAGR of approximately 6.0%.

Based on the above statistics and the information as disclosed in the 2023 Annual Report, the SHNE Group generated approximately 4,974,755 MWh electricity from its centralised photovoltaic power plants and wind power plants located in the PRC, accounted for approximately 0.05% of the national electricity generation for 2023.

Based on the Statistical Communiqués of the PRC on National Economic and Social Development published by the National Bureau of Statistics of the PRC in 2023, the electricity generated from (i) photovoltaic power in the PRC for 2022 and 2023 were approximately 427.3 million MWh and approximately 584.2 million MWh respectively, represented approximately 4.8% and approximately 6.2% of the electricity generation in the PRC; and (ii) wind power in the PRC for 2022 and 2023 were approximately 762.7 million MWh and approximately 885.9 million MWh respectively, represented approximately 8.6% and approximately 9.4% of the electricity generation in the PRC.

According to the 14th Five-Year Plan of the PRC, which sets out the economic development goals for the period from 2021 to 2025, it is the national goal to achieve carbon peaking by 2030 and carbon neutrality in 2060. In 2024, the PRC government issued various policies and guiding opinions to promote green and low-carbon transformation and high-quality development of the energy industry.

In March 2024, the National Energy Administration of the PRC issued the “Guiding Opinions on Energy Work in 2024*” (《2024年能源工作指導意見》), which outlined the main objectives of 2024, including (i) consolidate and expand the favourable development trend of wind power and photovoltaic power, steadily advancing the construction of large-scale wind power and photovoltaic power plants and orderly promote the completion and commissioning of wind power and photovoltaic power projects; (ii) accelerate the development of distributed wind power and distributed photovoltaic power generation; and (iii) adapt to the trend of clean and low-carbon economic and social development, coordinate the promotion of energy conservation, pollution reduction and carbon reduction among the energy industry, and promote the formation of a green and low-carbon production and lifestyle.

In May 2024, the State Council issued the “Action Plan for Energy Conservation and Carbon Reduction in 2024-2025*” (《2024-2025年節能降碳行動方案》), stating that, it is planned that energy consumption and carbon dioxide emissions per unit of gross domestic product will be reduced by approximately 2.5% and 3.9% respectively; the added-value energy consumption of industrial units above designated size will be decreased by approximately 3.5%, and the proportion of non-fossil energy consumption will reach approximately 18.9%; and energy conservation and carbon reduction transformation in key areas and industries will result in energy savings of approximately 50 million tons of standard coal and reduction of carbon dioxide emissions of approximately 130 million tons in 2024. By 2025, non-fossil energy consumption is expected to account for about 20%, and energy conservation and carbon reduction transformations in key areas and industries will also save approximately 50 million tons of standard coal and reduce carbon dioxide emissions by approximately 130 million tons.

On 8 November 2024, the National Energy Law was passed during the 12th Session of the Standing Committee of the 14th National People’s Congress, emphasising the new dual control mechanism to achieve the “dual carbon” goals (i.e. carbon peaking and carbon neutrality); providing strong legal protection for the vigorous development of renewable energy; and providing legal support for improving new energy system, with an aim to consolidate the social foundation for achieving the “dual carbon” goal.

Despite the aforesaid favourable policies to promote the transformation of energy industry, on 7 June 2021, the National Development and Reform Commission issued the “Notice on Matters Concerning the New Energy On-grid Tariff Policy in 2021*” (《關於2021年新能源上網電價政策有關事項的通知》) (the “2021 On-grid Tariff Policy”), which stipulates that (i) starting from 1 August 2021, the central government would no longer subsidise newly registered centralised photovoltaic power stations, industrial and commercial distributed photovoltaic projects and newly approved onshore wind power projects (collectively, the “Relevant New Projects”); and (ii) grid parity shall be adopted and the on-grid tariff for the Relevant New Projects from 2021 onward would be based on the local coal-fired electricity price, while the Relevant New Projects may voluntarily participate in market-based trading to determine on-grid tariffs to better reflect the value of photovoltaic and onshore wind power projects. The aforesaid policy has been reducing the consolidated tariffs of the Relevant New Projects (i.e. absence of tariff subsidies and reduced on-grid tariff), notwithstanding the passing of the National Energy Law stated in the above paragraph.

In light of the above growth in electricity consumption, electricity generation and proportions of electricity generated from photovoltaic power (from approximately 4.8% (2022) to approximately 6.2% (2023) of the electricity generation in the PRC) and wind power (from approximately 8.6% (2022) to approximately 9.4% (2023) of the electricity generation in the PRC), and the policies issued and law promulgated to stimulate the “dual carbon”

goal through promoting the use and development of renewable energy such as wind power and photovoltaic power, we consider the prospects of the Photovoltaic Power Business and Wind Power Business are generally positive. Nevertheless, there is uncertainty brought by the 2021 On-grid Tariff Policy as it has been reducing the consolidated tariffs of the Relevant New Projects. As advised by the Directors, among 73 power plants owned by SHNE Group as at 30 June 2024, 4 power plants are categorised as Relevant New Projects, representing approximately 5% of power plants owned by SHNE Group. Although the proportion of SHNE Group's power plants as at 30 June 2024 that are categorised as Relevant New Projects is not substantial, any of SHNE Group's newly registered centralised photovoltaic power stations, industrial and commercial distributed photovoltaic projects and newly approved onshore wind power projects in future will also be categorised as Relevant New Projects (should there be no change in the 2021 On-grid Tariff Policy). As consolidated tariffs are the major source of revenue of the Photovoltaic Power Business and the Wind Power Business (over 80% of the SHNE Group's revenue for FY2023 and 1H2024 was derived from the Photovoltaic Power Business and the Wind Power Business), any change in the PRC government policy may impact SHNE Group's position.

(3) Information on the Offeror

With reference to the Letter from Huatai Financial, SDHG, as the Offeror, is an investment holding company incorporated in Bermuda with limited liability and its shares are listed on the Main Board of the Stock Exchange (stock code: 412). The principal activity of SDHG is investment holding. The SDHS Group is principally engaged in industrial investment, standard investment business, non-standard investment business and licensed financial services in the PRC and Hong Kong.

(4) Intentions of the Offeror in relation to the SHNE Group

With reference to the Letter from Huatai Financial:

- The Offeror considers and confirms that (i) it is intended that the SHNE Group will continue with the existing business of the SHNE Group; and (ii) it has no intention to (a) introduce any major changes to the existing business of the SHNE Group or (b) discontinue the employment of any of the SHNE Group's employees or (c) redeploy the fixed assets of the SHNE Group other than in its ordinary course of business. Furthermore, the Offeror has no plans to downsize SHNE's existing business. However, the Offeror reserves the right to make such changes that it deems necessary or appropriate to the SHNE Group's business and operations to optimise the value of the SHNE Group.
- As at the Latest Practicable Date, no material investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the SHNE Group.

With reference to the 2024 Interim Report and as advised by the Directors, since entering into the SDHS Group's ecosystem in May 2022, the SHNE Group had taken full advantage of SDHS Group's credit enhancement system and high ratings and successfully obtained a long-term credit rating of "AAA" from a leading domestic rating agency, marking SHNE as the first enterprise within the emerging industry sector of SDHS Group to obtain such credit rating. This lays a solid foundation to reduce SHNE Group's financing costs and establish a diversified financing system in the future. As the SHNE Group operates the Photovoltaic Power Business and Wind Power Business through construction/acquisition and operation of its self-owned power plants, which are capital-intensive in nature, we consider the advantages brought by entering into SDHS Group's ecosystem had been and will continue to be beneficial to optimize SHNE Group's business development.

(5) Share Offer Price

Share Offer Price comparison

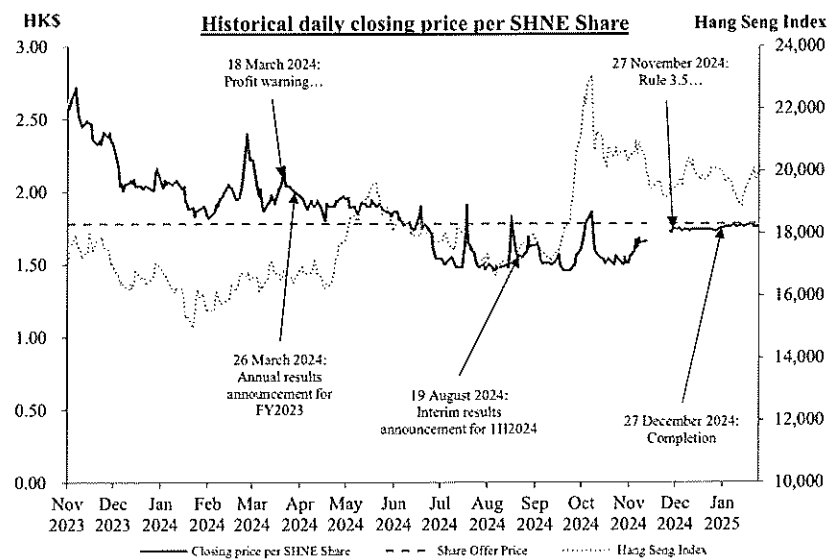
The Share Offer Price of HK\$1.78 per Offer Share represents:

- (i) a premium of approximately 1.14% over the closing price of HK\$1.76 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a premium of approximately 7.23% over the closing price of HK\$1.6600 per SHNE Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 7.49% over the average closing price of HK\$1.6560 per SHNE Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 11.32% over the average closing price of approximately HK\$1.5990 per SHNE Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 12.23% over the average closing price of approximately HK\$1.6003 per SHNE Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 72.22% to the audited equity attributable to equity holders of SHNE of approximately HK\$6.4070 per SHNE Share as at 31 December 2023, calculated based on the audited equity attributable to equity holders of SHNE of approximately HK\$14.39 billion as at 31 December 2023 and 2,246,588,726 SHNE Shares in issue as at the Latest Practicable Date; and

- (vii) a discount of approximately 71.88% to the unaudited equity attributable to equity holders of SHNE (the “NAV Discount”) of approximately HK\$6.3295 per SHNE Share as at 30 June 2024, calculated based on the unaudited equity attributable to equity holders of SHNE of approximately HK\$14.22 billion as at 30 June 2024 and 2,246,588,726 SHNE Shares in issue as at the Latest Practicable Date.

Historical price performance of the SHNE Shares

Set out below is a chart showing the movement of the closing prices of the SHNE Shares, together with the movement of Hang Seng Index during the period from 1 November 2023 (being approximately one year prior to Last Trading Day) up to the Latest Practicable Date (the “Review Period”), being an adequate and representative review period and the duration of such period is sufficient for us to perform a thorough analysis on the general trend and level of movement of the closing prices of the SHNE Shares.



Source: the Stock Exchange's website

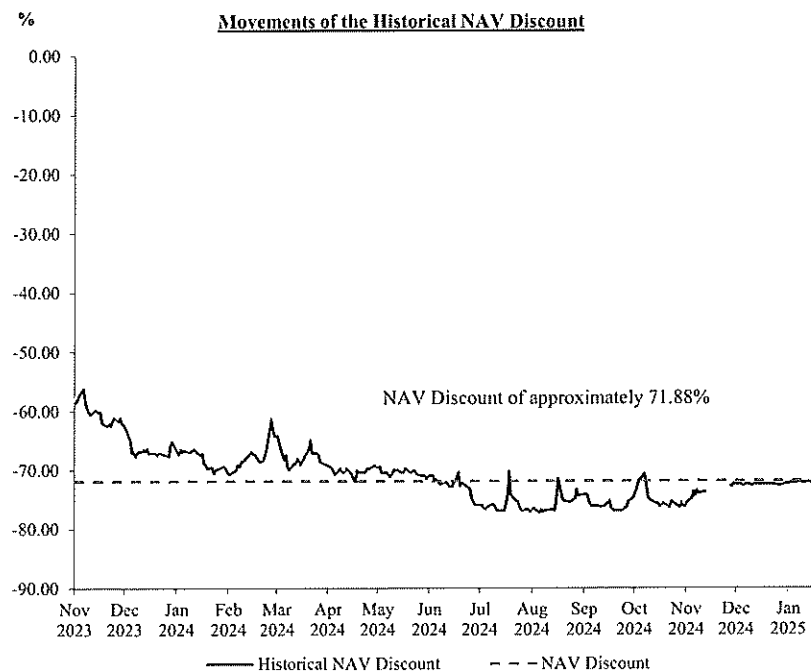
Note: Trading in SHNE Shares was halted from 9:16 a.m. on 12 November 2024 and resumed at 1:00 p.m. on 27 November 2024.

During the Review Period, the highest and lowest closing prices of the SHNE Shares as quoted on the Stock Exchange were HK\$2.72 recorded on 6 November 2023 and HK\$1.46 recorded on 5 August 2024, 19 September 2024, 20 September 2024 and 23 September 2024 respectively. The Share Offer Price of HK\$1.78 per Offer Share falls within the closing price range of the SHNE Shares as quoted on the Stock Exchange during the Review Period and is higher than the closing prices of SHNE Shares for (i) 137 trading days out of the total of 294 trading days during the Review Period; and (ii) 126 trading days out of the total of 132 trading days during the period from 2 July 2024 (first trading day of second half of 2024) up to the Latest Practicable Date.

From the beginning of the Review Period, the closing price of the SHNE Shares formed a general decreasing trend and reached HK\$1.48 per SHNE Share on 11 July 2024. Thereafter, the closing prices of SHNE Shares fluctuated between HK\$1.46 per SHNE Share to HK\$1.91 per SHNE Share up to the Last Trading Day. From 27 November 2024 (after trading of SHNE Shares resumed upon publication of the Rule 3.5 Announcement) up to the Latest Practicable Date, the closing prices of SHNE Shares fluctuated between HK\$1.72 and HK\$1.78, which are close/equal to the Share Offer Price.

Historical NAV Discount

As abovementioned, the Share Offer Price represented a discount of approximately 71.88% (i.e. the NAV Discount) to the unaudited equity attributable to equity holders of SHNE per SHNE Share as at 30 June 2024. Accordingly, we also reviewed the discounts of the closing prices of SHNE Shares to the then latest prevailing equity attributable to equity holders of SHNE per SHNE Share (the "Historical NAV Discounts") during the Review Period as set out in the chart below:



Notes:

As the SHNE's interim results announcement for 1H 2023 was published after trading hours on 29 August 2023, the SHNE's annual results announcement for FY2023 was published after trading hours on 26 March 2024 and the SHNE's interim results announcement for 1H2024 was published after trading hours on 19 August 2024:

1. The Historical NAV Discounts from 1 November 2023 to 26 March 2024 were calculated based on the daily closing prices of SHNE Share and the equity attributable to the equity holders of SHNE of approximately HK\$13.93 billion as at 30 June 2023.
2. The Historical NAV Discounts from 27 March 2024 to 19 August 2024 were calculated based on the daily closing prices of SHNE Share and the equity attributable to the equity holders of SHNE of approximately HK\$14.39 billion as at 31 December 2023.
3. The Historical NAV Discounts from 20 August 2024 to the Latest Practicable Date were calculated based on the daily closing prices of SHNE Share and the equity attributable to the equity holders of SHNE of approximately HK\$14.22 billion as at 30 June 2024.

As illustrated above, the closing prices of the SHNE Shares were at discounts to the then latest published equity attributable to equity holders of SHNE per SHNE Share during the entire Review Period and the Historical NAV Discounts ranged from approximately 56.15% to approximately 77.21% during the Review Period. The NAV Discount of approximately 71.88% is within the range of Historical NAV Discounts during the Review Period and represented slighter discount to the Historical NAV Discounts for majority of the trading days from 3 June 2024 up to and including the Latest Practicable Date.

Despite that SHNE Group's businesses are capital-intensive, relevance of the NAV Discount is not strong for considering the Share Offer Price from the SHNE Independent Shareholders' perspective given the following reasons:

- (i) from the SHNE Independent Shareholders' perspective, investment value of the SHNE Shares can be realised by receiving dividends and/or disposal of the SHNE Shares;
- (ii) SHNE had not declared any dividend since its financial year ended 31 December 2014;
- (iii) the Historical NAV Discounts were deep during the Review Period;
- (iv) majority of SHNE Group's owned property assets are photovoltaic and wind power plants and clean heat supply facilities; whereas the Offeror considers and confirms that, amongst others, (a) it is intended that the SHNE Group will continue with the existing business of the SHNE Group; and (b) it has no intention to redeploy the fixed assets of the SHNE Group other than in its ordinary course of business; and
- (v) even if SHNE Group disposes of any of its fixed assets, the SHNE Independent Shareholders' could not realise any investment value in the SHNE Shares unless SHNE declares dividend in relation to the proceeds from disposal,

Given the above, we also consider that absence of valuation of the SHNE Group's property including but not limited to the photovoltaic and wind power plants would not affect our opinion, advice and recommendation to the SHNE Independent Board Committee.

Historical trading liquidity of the SHNE Shares

The number of trading days, the average daily number of the SHNE Shares traded per month, and the respective percentages of the SHNE Shares' monthly trading volume during the Review Period as compared to (i) the total number of issued SHNE Shares held by the SHNE Independent Shareholders; and (ii) the total number of issued SHNE Shares, are tabulated as below:

Month	No. of trading days	Average daily trading volume (the "Average Volume") Shares	% of the Average Volume to total number of issued SHNE Shares held by SHNE Independent Shareholders based on the number of issued SHNE Shares as at the end of each month/period %	% of the Average Volume to total number of issued SHNE Shares as at the end of the month/period %
2023				
November	22	408,069	0.04	0.02
December	19	331,157	0.03	0.01
2024				
January	22	260,498	0.03	0.01
February	19	419,421	0.04	0.02
March	20	140,448	0.01	0.01
April	20	129,218	0.01	0.01
May	21	252,820	0.03	0.01
June	19	205,546	0.02	0.01
July	22	209,295	0.02	0.01
August	22	233,496	0.02	0.01
September	19	334,550	0.03	0.01
October	21	585,280	0.06	0.03
November (Note 3)	11	1,274,364	0.13	0.06
December	20	593,055	0.06	0.03
2025				
January (up to and including the Latest Practicable Date)	17	374,608	0.04	0.02

Source: the Stock Exchange's website

Note:

Trading in SHNE Shares was halted from 9:16 a.m. on 12 November 2024 and resumed at 1:00 p.m. on 27 November 2024.

During the Review Period, the Average Volume was (i) below 0.2% of the total number of issued SHNE Shares held by the SHNE Independent Shareholders as at the Latest Practicable Date; and (ii) below 0.1% of the total number of issued SHNE Shares as at the Latest Practicable Date. The Average Volume was exceptionally thin during the Review Period. SHNE Independent Shareholders (especially those with relatively sizeable shareholdings) may not be able to realise their investments in the SHNE Shares at a price close to the Share Offer Price, particularly those who are going to dispose of their entire holdings as the disposal of large number of SHNE Shares in the open market may have adverse impact on the price of SHNE Shares.

Trading multiples analysis

To further assess the fairness and reasonableness of the Share Offer Price, we performed the trading multiple analysis which includes the price to earnings ratio (“PER”) and price to book ratio (“PBR”) as below. As SHNE Group generated approximately 82% of its revenue for FY2023 from the Photovoltaic Power Businesses and Wind Power Businesses in aggregate, we searched for Hong Kong listed companies (i) which are principally engaged in photovoltaic power business and/or wind power business in the PRC; (ii) which derived more than 50% of their revenue from such businesses in aggregate for their latest financial year; (iii) which had market capitalisation of below HK\$10 billion as at the Latest Practicable Date (to allow us to identify Comparable Companies (as defined below) within a reasonable market capitalisation range as compared to that of SHNE (i.e. approximately HK\$4 billion as at the Latest Practicable Date)); (iv) which had recorded profit attributable to the shareholders for its latest full financial year and/or net assets attributable to the shareholders as at the end of their respective latest financial period; and (v) whose shares are not suspended for over six months immediately prior to the publication of the Rule 3.5 Announcement. We found 6 companies listed below which met the aforesaid criteria and they are exhaustive (the “Comparable Companies”).

Set out below are the PER, PBR and market capitalisation of the Comparable Companies based on their closing prices and their latest published financial information as at the Latest Practicable Date:

Company name (Stock code)	Principal business	Market capitalisation <i>Approximate HK\$ million</i>	PER <i>(Note 1)</i>	PBR <i>(Note 2)</i>
Concord New Energy Group Limited (182)	Operation of wind and solar power plants	3,791.5	3.64	0.41
Kong Sun Holdings Limited (295)	Investment in and operation of solar power plants, provision of solar power plant operation and maintenance services, provision of financial services, trading of liquefied natural gas and asset management	269.4	N/A <i>(Note 3)</i>	0.09
GCL New Energy Holdings Limited (451)	Sale of electricity, development, construction, operation and management of solar power plants	665.4	N/A <i>(Note 3)</i>	0.32
Beijing Energy International Holding Co., Ltd. (686)	Development, investment, operation and management of solar, wind and hydro power plants and other clean energy projects	2,220.9	48.91	0.38
China Renewable Energy Investment Limited (987)	Operation of wind power project and development of waste-to-energy projects	260.6	11.20	0.14
Xinyi Energy Holdings Limited (3868)	Operation of solar farms	6,533.8	6.58	0.50
	Maximum:		48.91	0.50
	Minimum:		3.64	0.09
	Average:		17.58	0.31
	Median:		8.89	0.35
SHNE		3,954.0	10.57 <i>(Note 5)</i>	0.28 <i>(Note 6)</i>

Source: the Stock Exchange's website

Notes:

- The PERs of the Comparable Companies were calculated based on their respective then latest published profit attributable to the shareholders for the latest full financial year, their respective closing prices as quoted on the Stock Exchange and the total issued shares as at the Latest Practicable Date.
- The PBRs of the Comparable Companies were calculated based on their respective then latest published net asset value attributable to the shareholders, their respective closing prices as quoted on the Stock Exchange and the total issued shares as at the Latest Practicable Date.

3. The subject company recorded loss attributable to the owners of the company for their latest financial year according to its latest published financial information up to the Latest Practicable Date.
4. We adopted the mean and standard deviation outlier detection method to identify outliers in the sampled data and no outlier was identified as none of the sampled data was more than two standard deviations away from the mean.
5. The implied PER of SHNE was calculated based on the Share Offer Price, the number of SHNE Shares in issue as at the Latest Practicable Date and the profit attributable to the SHNE Shareholders per SHNE Share for FY2023.
6. The implied PBR of SHNE was calculated based on the Share Offer Price, the number of SHNE Shares in issue as at the Latest Practicable Date and the equity attributable to the SHNE Shareholders per SHNE Share as at 30 June 2024.

As depicted in the above table, (i) the PERs of the Comparable Companies ranged from approximately 3.64 times to approximately 48.91 times, with an average of approximately 17.58 times and a median of approximately 8.89 times; and (ii) the PBRs of the Comparable Companies ranged from approximately 0.09 times to approximately 0.50 times, with an average of approximately 0.31 times and a median of approximately 0.35 times.

The implied PER of SHNE is within the PER range of the Comparable Companies and lower than the average but higher than median PERs of Comparable Companies.

The implied PBR of SHNE is within the PBR range of the Comparable Companies and lower than the average and median PBRs of Comparable Companies.

Despite that (a) the Share Offer Price of HK\$1.78 per Offer Share represented NAV Discount of approximately 71.88%; (b) the implied PER of SHNE based on the Share Offer Price is lower than the average PER of the Comparable Companies; and (c) the implied PBR of SHNE based on the Share Offer Price is lower than the average and median PBRs of the Comparable Companies, having considered that (i) the Share Offer Price of HK\$1.78 per Offer Share falls within the closing price range of the SHNE Shares as quoted on the Stock Exchange during the Review Period; (ii) the Share Offer Price of HK\$1.78 per Offer Share is higher than the closing prices of SHNE Shares for 126 trading days out of the total of 132 trading days during the period from 2 July 2024 (first trading day of second half of 2024) up to the Latest Practicable Date; (iii) the Historical NAV Discounts ranged from approximately 56.15% to approximately 77.21% during the Review Period and the NAV Discount of 71.88% represented slighter discount to the Historical NAV Discounts for majority of the trading days from 3 June 2024 up to and including the Latest Practicable Date; and (iv) the average PER of the Comparable Companies was heavily skewed by the PER of Beijing Energy International Holding Co., Ltd. (stock code: 686) (although it is not an outlier), thus we consider the median

PER of the Comparable Companies would be a more appropriate metric and the implied PER of SHNE is higher than the median PER of the Comparable Companies, indicating that the Share Offer Price of HK\$1.78 per Offer Share is not undervalued from PER perspective, we are of the view that the Share Offer Price is fair and reasonable so far as the SHNE Independent Shareholders are concerned.

(6) SHNE Option Offer Price

With reference to the Board Letter, pursuant to Rule 13 of the Takeovers Code and Practice Note 6 of the Takeovers Code, the SHNE Option Offer Price would normally be the “see-through” price which represents the excess of the Share Offer Price per Offer Share over the exercise price of each of the outstanding SHNE Options. Since the exercise price of the outstanding SHNE Options of HK\$4.00 each is above the Share Offer Price of HK\$1.78 per Offer Share, the outstanding SHNE Options are out-of-money and the SHNE Option Offer Price for the cancellation of each Offer Option will be a nominal value of HK\$0.0001.

Given that the “see-through” value of the outstanding SHNE Options is nil, we consider the SHNE Option Offer Price of HK\$0.0001 offered to the SHNE Offer Optionholders is fair and reasonable so far as the SHNE Offer Optionholders are concerned.

With reference to Appendix I to the Composite Document, SHNE Offer Optionholders may do nothing before the Closing Date, and in such case, unexercised SHNE Options will remain exercisable during the original period, and will lapse after the end of the relevant original exercise period of the SHNE Options in accordance with the terms of the Share Option Scheme and the SHNE Offer Optionholders will not receive the SHNE Option Offer Price.

RECOMMENDATION

We noted the generally positive development of the SHNE Group’s businesses as stated below:

- (i) the SHNE Group was profit making for FY2022, FY2023 and 1H2024 as illustrated under the section headed “(2) Information on the SHNE Group” above;
- (ii) the prospects of the Photovoltaic Power Business and Wind Power Business (which generated approximately 82% in aggregate of SHNE Group’s revenue for FY2023) are generally positive as illustrated under the sub-section headed “Outlook and industry overview” above. Nevertheless, there is uncertainty brought by the 2021 On-grid Tariff Policy as it has been reducing the consolidated tariffs of the Relevant New Projects (i.e. absence of tariff subsidies and reduced on-grid tariff);

- (iii) the Offeror considers and confirms that (i) it is intended that the SHNE Group will continue with the existing business of the SHNE Group; and (ii) it has no intention to (a) introduce any major changes to the existing business of the SHNE Group or (b) discontinue the employment of any of the SHNE Group's employees or (c) redeploy the fixed assets of the SHNE Group other than in its ordinary course of business. Furthermore, the Offeror has no plans to downsize SHNE's existing business; and
- (iv) since entering the ecosystem of SDHS Group in May 2022, the SHNE Group has achieved remarkable results (in terms of on-grid capacity and aggregate power generation) in high-quality development. The SHNE Group had also taken full advantage of SDHS Group's credit enhancement system and high ratings and successfully obtained a long-term credit rating of "AAA" from a leading domestic rating agency. The advantages brought by entering into SDHS Group's ecosystem had been and will continue to be beneficial to optimize SHNE Group's business development as concluded under the section headed "(4) Intentions of the Offeror in relation to the SHNE Group" above.

We also noted that:

- (i) the implied PER of SHNE is within the PER range of the Comparable Companies and lower than the average but higher than median PERs of Comparable Companies; and
- (ii) the implied PBR of SHNE is within the PBR range of the Comparable Companies and lower than the average and median PBRs of Comparable Companies.

Nevertheless, from the SHNE Independent Shareholders' perspective, investment value of the SHNE Shares can be realised by receiving dividends and/or disposal of the SHNE Shares. SHNE had not declared any dividend since its financial year ended 31 December 2014. Thus, having considered the factors from share price perspective as set out below:

- (i) the trading volume of the SHNE Shares was thin during the Review Period. SHNE Independent Shareholders (especially those with relatively sizeable shareholdings) may not be able to realise their investments in the SHNE Shares at a price close to the Share Offer Price, particularly those who are going to dispose of their entire holdings as the disposal of large number of SHNE Shares in the open market may have adverse impact on the price of SHNE Shares;

- (ii) the Share Offer Price (a) falls within the closing price range of the SHNE Shares as quoted on the Stock Exchange during the Review Period; and (b) is higher than the closing prices of SHNE Shares for 126 trading days out of the total of 132 trading days during the period from 2 July 2024 (first trading day of second half of 2024) up to the Latest Practicable Date; and
- (iii) the exercise price of the outstanding SHNE Options is greater than the Share Offer Price, the “see-through” price for the outstanding SHNE Options is therefore nil and the SHNE Options are out-of-money, the SHNE Option Offer Price at a nominal value of HK\$0.0001 is considered to be fair and reasonable so far as the SHNE Offer Optionholders are concerned,

we are of the view that the Offers (including the Share Offer Price and the SHNE Share Option Offer Price) are fair and reasonable so far as the SHNE Independent Shareholders and the SHNE Offer Optionholders are concerned. Accordingly, we recommend the SHNE Independent Board Committee to (1) advise the SHNE Independent Shareholders to accept the Share Offer; and (2) advise the SHNE Offer Optionholders to accept the SHNE Option Offer.

In light of that the closing price of SHNE Shares ranged between HK\$1.72 and HK\$1.78 following the publication of the Rule 3.5 Announcement and up to the Latest Practicable Date, SHNE Independent Shareholders who wish to realise their investment in the SHNE Group are reminded that they should carefully and closely monitor the market price of the SHNE Shares during the Offer Period and consider selling their SHNE Shares in the open market during the Offer Period, rather than accepting the Share Offer, if the net proceeds from the sale of such SHNE Shares in the open market would exceed the net amount receivable under the Share Offer.

As different SHNE Independent Shareholders or SHNE Offer Optionholders would have different investment criteria, objectives and/or circumstances, we would recommend any SHNE Independent Shareholders or SHNE Offer Optionholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.

* For identification purpose only