



红日资本有限公司
RED SUN CAPITAL LIMITED

13 February 2025

*To: The Takeovers Code Independent Board Committee,
the Listing Rules Independent Board Committee
and the Independent Shareholders*

**(1) CONNECTED TRANSACTION IN RELATION TO
THE SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE;
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Takeovers Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders in respect of the Share Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 13 February 2025 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 30 December 2024 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and allot, and the Subscriber has conditionally agreed to subscribe for, 1,621,717,000 Subscription Shares at the Subscription Price of HK\$0.20 per Subscription Share for a total consideration of HK\$324,343,400 in cash.

The Subscription Shares which will be issued upon Completion represent: (i) approximately 50% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 33.33% of the issued share capital of the Company as enlarged by the issuance and allotment of the Subscription Shares, assuming there is no other change to the share capital of the Company from the Latest Practicable Date up to the Completion Date. The Subscription Shares shall be issued and allotted pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.



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As at the Latest Practicable Date, (i) the Subscriber (a wholly-owned subsidiary of CM Group) does not hold any Shares; (ii) Prime Force Investment Corporation (an indirect wholly-owned subsidiary of CM Group) holds 1,530,372,000 Shares, representing approximately 47.18% of the issued share capital of the Company; and (iii) CIMC (HK), a party acting in concert with the Subscriber, holds 185,600,000 Shares, representing approximately 5.72% of the issued share capital of the Company.

Upon Completion, assuming there is no other change to the share capital and shareholding structure of the Company, the shareholding of the Subscriber and parties acting in concert with it (including the Trustee) will increase from approximately 55.08% to approximately 70.05% of the issued share capital of the Company.

Following consultation with the Executive, as the total shareholding of the China Merchants Group would increase from approximately 47.18% to approximately 64.79% after Completion (excluding Shares held by the Trustee), the issuance and allotment of the Subscription Shares under the Subscription Agreement to the Subscriber will give rise to an obligation on the part of the Subscriber and CM Group to make a mandatory general offer for all Shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with it) under Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive.

The Subscriber has made an application to the Executive (on behalf of itself and CM Group) for the Whitewash Waiver from compliance with the obligations to make a mandatory general offer for all Shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with it) under Rule 26.1 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver, subject to, among other things, the approval by at least 75% of the votes cast by the Independent Shareholders in respect of the Whitewash Waiver and more than 50% of the votes cast by the Independent Shareholders in respect of the Share Subscription, respectively, at the EGM.

The Subscriber and CM Group, their respective associates, and any parties acting in concert with them, and any other party who is interested in or involved in the Share Subscription and/or the Whitewash Waiver, will be required to abstain from voting in respect of the resolution(s) to approve the Share Subscription and the Whitewash Waiver at the EGM.

THE TAKEOVERS CODE INDEPENDENT BOARD COMMITTEE AND THE LISTING RULES INDEPENDENT BOARD COMMITTEE

The Takeovers Code Independent Board Committee comprising all non-executive Directors who are not interested or involved in the Share Subscription and the Whitewash Waiver, namely Mr. Zhang Xizheng, Mr. Zhang Menggui, Morgan, Mr. Zou Zhendong, Ms. Zhang Zhen and Mr. Xue Jianzhong, has been formed to advise the Independent Shareholders on the terms of, and voting in respect of, the Share Subscription and the Whitewash Waiver.



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The Listing Rules Independent Board Committee comprising all the independent non-executive Directors who have no direct or indirect interest in the Share Subscription, namely Mr. Zou Zhendong, Ms. Zhang Zhen and Mr. Xue Jianzhong has been formed to advise the Independent Shareholders on the terms of, and voting in respect of, the Share Subscription from the Listing Rules perspective.

We have been appointed as the independent financial adviser and approved by the Takeovers Code Independent Board Committee and the Listing Rules Independent Board Committee to advise the Takeovers Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders on the terms of the Share Subscription and the Whitewash Waiver and to make recommendations as to voting.

OUR INDEPENDENCE

We did not have any business relationship with or interest in the Company and the Subscriber that could reasonably be regarded as relevant in assessing our independence as at the Latest Practicable Date. Save for our appointment as the independent financial adviser, there were no engagements between (i) Red Sun Capital Limited and the Company; and (ii) Red Sun Capital Limited and the Subscriber in the past two years from the date of this letter. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company and the Subscriber or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules and the applicable Takeovers Code.

BASIS OF OUR ADVICE

In order to formulate our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and/or senior management of the Company (the "Management"). We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continued to be so as at the Latest Practicable Date and will continue to be true, accurate and complete in all material respects up to the time of the EGM. In accordance with Rule 9.1 of the Takeovers Code, the Shareholders will also be informed where there is any material changes to the information contained or referred to herein as well as changes to our opinion, if any, as soon as possible.

We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors confirmed that no material facts had been omitted from the information provided and referred to in the Circular.

However, we have not carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group and the Subscriber or their respective histories, experiences and track records, or the prospects of the markets in which they operate.



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We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion, which included, among others, (i) reviewed the Subscription Agreement; (ii) reviewed the Announcement, the Letter from the Board contained in the Circular and the accompanying appendices; (iii) reviewed the annual report of the Company for the year ended 31 December 2023 (the “2023 Annual Report”); (iv) reviewed the interim report of the Company for the six months ended 30 June 2024 (the “2024 Interim Report”); (v) conducted analysis on the historical closing prices and trading volume of the Shares during the Review Period (defined hereafter) based on information extracted from the website of the Stock Exchange; (vi) conducted market research and obtained sample transactions on the similar transactions involve the issuance of shares under specific mandate by companies listed on the Stock Exchange for the purpose of our fairness and reasonableness analysis of the terms of the Subscription Agreement; (vii) conducted analysis on the market comparables in connection to price-to-earnings and price-to-book ratio of other listed companies in Hong Kong which are of similar business nature; (viii) conducted analysis on the potential dilution effect of the Share Subscription; and (ix) conducted analysis on the possible financial effects of the Share Subscription.

We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

This letter is issued to the Takeovers Code Independent Board Committee, the Listing Rules Independent Board Committee and the Independent Shareholders solely for their consideration of the Share Subscription and the Whitewash Waiver, 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

We have taken into consideration the following principal factors and reasons in arriving at our opinion in respect of the Share Subscription and the Whitewash Waiver:

A. Share Subscription under Specific Mandate

I. Background and financial information of the Group

As set out in the Letter from the Board, the Company is principally engaged in investment holding. The Group is principally engaged in building a “Hydrogen, Machinery, Electricity” industrial layout focused on areas of hydrogen-based fuel equipment production and application (hydrogen), ocean energy equipment (machinery), and electric power drive and control (electricity), with a commitment to creating industry leading products and being an industry leading provider of technologically innovative green energy and equipment services.



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Set out below is a summary of the Group's operating results extracted from (i) the 2023 Annual Report; and (ii) 2024 Interim Report:

Summary of the Group's consolidated statements of profit and loss

	For the six months ended		For the year ended	
	30 June		31 December	
	2024	2023	2023	2022
	(unaudited)	(unaudited)	(audited)	(audited)
	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	77,601	92,888	181,337	113,040
– Equipment manufacturing and packages	38,247	57,594	101,374	61,026
– Supply chain and integration services	14,526	17,249	29,089	40,699
– Assets management and engineering services	24,828	18,045	50,874	11,315
Cost of sales	(60,063)	(75,913)	(140,340)	(85,294)
Gross profit	17,538	16,975	40,997	27,746
Profit before tax	6,088	5,322	13,955	26,455
Profit for the year attributable to owners of the Company	4,786	4,791	9,502	25,879

Financial performance for the year ended 31 December 2023 as compared to that for the year ended 31 December 2022

As set out in the 2023 Annual Report, for the year ended 31 December 2023, the Group recorded revenue of approximately US\$181.3 million, representing an increase of approximately 60.4% as compared to approximately US\$113.0 million recorded for the year ended 31 December 2022. Such increase was mainly driven by the growth in the (i) equipment manufacturing and package of approximately 66.1% which was mainly attributable to some orders for wind power business of larger contract amounts were completed and delivered in 2023, resulting in an overall amount higher than last year; and (ii) assets management and engineering services of approximately 349.6% which was mainly attributable to the new business in leasing of saturation diver supporting diving support construction vessels.



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Gross profit increased from approximately US\$27.7 million for the year ended 31 December 2022 to approximately US\$41.0 million for the year ended 31 December 2023, which was attributable to the increase in revenue from the equipment manufacturing and package and assets management and engineering services as set out in the preceding paragraph. However, the gross profit margin decreased from approximately 24.5% for the year ended 31 December 2022 to approximately 22.6% for the year ended 31 December 2023, mainly attributable to the leasing business of diving support construction vessels with lower gross profit margin accounted for a larger proportion of the Group's total revenue.

The profit for the year ended 31 December 2023 attributable to owners of the Company decreased by approximately 63.3% from approximately US\$25.9 million for the year ended 31 December 2022 to approximately US\$9.5 million for the year ended 31 December 2023. Such decrease was mainly due to the decrease in share of results of a joint venture of approximately 100.0%. The decrease was mainly due to the joint venture disposed two vessels at an aggregate consideration of approximately US\$190,000,000 during the year ended 31 December 2022, as a result, share of gain on disposal of the two vessels of approximately US\$18,062,000 was included in share of profit of joint venture for the year ended 31 December 2022.

Financial performance for the six months ended 30 June 2024 as compared to that for the six months ended 30 June 2023

As set out in the 2024 Interim Report, the Group recorded revenue of approximately US\$77.6 million for the six months ended 30 June 2024, representing a decrease of approximately 16.5% as compared to approximately US\$92.9 million recorded for the six months ended 30 June 2023. Such decrease was mainly due to the equipment related to wind power installation being delivered for the corresponding period in 2023 more than the corresponding period in 2024.

Gross profit increased from approximately US\$17.0 million for the six months ended 30 June 2023 to approximately US\$17.5 million for the six months ended 30 June 2024 and the gross profit margin increased from approximately 18.3% for the six months ended 30 June 2023 to approximately 22.6% for the six months ended 30 June 2024, which was attributable to the projects with higher gross profit margin for the six months ended 30 June 2024 accounted for a larger proportion of the Group's total revenue compared to the six months ended 30 June 2023.

The profit for the six months ended 30 June 2024 attributable to owners of the Company decreased by approximately 0.1% from approximately US\$4,791,000 for the six months ended 30 June 2023 to approximately US\$4,786,000 for the six months ended 30 June 2024. Such decrease was mainly due to the decrease in other income, gains and losses, net of approximately 105.6%. The decrease was mainly due to the increase in foreign exchange loss.



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Summary of the Group's consolidated statements of financial position

	As at 30 June 2024 (unaudited) US\$'000	As at 31 December 2023 (audited) US\$'000	2022 (audited) US\$'000
Non-current assets	72,974	81,446	38,796
– Property, plant and equipment	47,059	53,237	20,904
– Interests in associates	16,556	16,497	6,810
Current assets	234,724	244,855	239,878
– Trade and other receivables	105,621	110,457	164,704
– Cash and cash equivalents	70,780	73,366	24,915
– Inventories	35,127	39,950	36,240
Current liabilities	113,292	128,341	108,116
– Trade and other payables	47,535	60,185	59,576
– Lease liabilities	35,897	29,707	14,657
– Contract liabilities	25,891	34,165	29,822
Non-current liabilities	17,315	22,136	1,532
– Lease liabilities	17,315	22,136	1,532
Total equity	177,091	175,824	169,026

Note: For the avoidance of doubt, only selected major asset and liability components are disclosed in the table above



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Financial position as at 31 December 2023 as compared to that as at 31 December 2022

As at 31 December 2023, the Group's total assets amounted to approximately US\$326.3 million, representing an increase of approximately 17.1% as compared to approximately US\$278.7 million as at 31 December 2022, which mainly comprised (i) trade and other receivables of approximately US\$110.5 million as at 31 December 2023 as compared to approximately US\$164.7 million as at 31 December 2022; (ii) cash and cash equivalents of approximately US\$73.4 million as at 31 December 2023 as compared to approximately US\$24.9 million as at 31 December 2022; (iii) property, plant and equipment of approximately US\$53.2 million as at 31 December 2023 as compared to approximately US\$20.9 million as at 31 December 2022; (iv) inventories of approximately US\$40.0 million as at 31 December 2023 as compared to approximately US\$36.2 million as at 31 December 2022; and (v) interests in associates of approximately US\$16.5 million as at 31 December 2023 as compared to approximately US\$6.8 million as at 31 December 2022.

As at 31 December 2023, the Group's total liabilities amounted to approximately US\$150.5 million, representing an increase of approximately 37.3% as compared to approximately US\$109.6 million as at 31 December 2022, which primarily comprised (i) trade and other payables of approximately US\$60.2 million as at 31 December 2023 as compared to approximately US\$59.6 million as at 31 December 2022; (ii) contract liabilities of approximately US\$34.2 million as at 31 December 2023 as compared to approximately US\$29.8 million as at 31 December 2022; (iii) lease liabilities in current portion of approximately US\$29.7 million as at 31 December 2023 as compared to approximately US\$14.7 million as at 31 December 2022; and (iv) lease liabilities in non-current portion of approximately US\$22.1 million as at 31 December 2023 as compared to approximately US\$1.5 million as at 31 December 2022.

As at 31 December 2023, total equity of the Company amounted to approximately US\$175.8 million, as compared to approximately US\$169.0 million as at 31 December 2022.



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Financial position as at 30 June 2024 as compared to that as at 31 December 2023

As at 30 June 2024, the Group's total assets amounted to approximately US\$307.7 million, representing a decrease of approximately 5.7% as compared to approximately US\$326.3 million as at 31 December 2023, which mainly comprised (i) trade and other receivables of approximately US\$105.6 million as at 30 June 2024 as compared to approximately US\$110.5 million as at 31 December 2023; (ii) cash and cash equivalents of approximately US\$70.8 million as at 30 June 2024 as compared to approximately US\$73.4 million as at 31 December 2023; (iii) property, plant and equipment of approximately US\$47.1 million as at 30 June 2024 as compared to approximately US\$53.2 million as at 31 December 2023; (iv) inventories of approximately US\$35.1 million as at 30 June 2024 as compared to approximately US\$40.0 million as at 31 December 2023; and (v) interests in associates of approximately US\$16.6 million as at 30 June 2024 as compared to approximately US\$16.5 million as at 31 December 2023.

As at 30 June 2024, the Group's total liabilities amounted to approximately US\$130.6 million, representing a decrease of approximately 13.2% as compared to approximately US\$150.5 million as at 31 December 2023, which primarily comprised (i) trade and other payables of approximately US\$47.5 million as at 30 June 2024 as compared to approximately US\$60.2 million as at 31 December 2023; (ii) lease liabilities in current portion of approximately US\$35.9 million as at 30 June 2024 as compared to approximately US\$29.7 million as at 31 December 2023; (iii) contract liabilities of approximately US\$25.9 million as at 30 June 2024 as compared to approximately US\$34.2 million as at 31 December 2023; and (iv) lease liabilities in non-current portion of approximately US\$17.3 million as at 30 June 2024 as compared to approximately US\$22.1 million as at 31 December 2023.

As at 30 June 2024, total equity of the Company amounted to approximately US\$177.1 million, as compared to approximately US\$175.8 million as at 31 December 2023.

We noted from the above financial information that the balance of cash and cash equivalents of the Company was approximately US\$70.8 million as at 30 June 2024, as discussed with the Management and set out in the Letter from the Board, the Company intends to apply its current cash resources towards existing projects. In particular, a significant portion of the Company's current cash resources will be reserved for the petroleum drilling rig modernized modification project of Petróleos Mexicanos, please refer to the section headed "REASONS FOR AND BENEFITS OF THE SHARE SUBSCRIPTION AND USE OF PROCEEDS" in the Letter from the Board and the announcement of the Company dated 11 December 2023 for further details, therefore the net proceeds from the subject Share Subscription will be essential for the development of hydrogen, machinery and electricity related businesses, which will be used in the operation of green energy related projects, investing in projects with exemplary value and other investment opportunities as may be identified in the future, etc. The Company seeks to invest in projects with a focus on the research and development of core components of water electrolysis hydrogen production equipment and system design.



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2. *Information on the Subscriber*

The Subscriber is a company incorporated in Hong Kong with limited liability which is principally engaged in investment holding. As at the Latest Practicable Date, the Subscriber is a wholly-owned subsidiary of CM Group, a substantial shareholder of the Company, and is therefore a connected person of the Company. As at the Latest Practicable Date, CM Group is interested in 1,530,372,000 Shares through Prime Force Investment Corporation (an indirect wholly-owned subsidiary of CM Group), representing approximately 47.18% of the issued share capital of the Company.

CM Group is a large integrated state-owned conglomerate which is principally engaged in core industries such as transportation, finance, comprehensive development and operation of cities and parks and technology and innovation related businesses.

3. *Reasons for and benefits of the Share Subscription*

As set out in the Letter from the Board, the Company is principally engaged in investment holding. The Group is principally engaged in building a “Hydrogen, Machinery, Electricity” industrial layout focused on areas of hydrogen-based fuel equipment production and application (hydrogen), ocean energy equipment (machinery), and electric power drive and control (electricity), with a commitment to creating industry leading products and being an industry leading provider of technologically innovative green energy and equipment services. The Company intends to apply its current cash resources towards existing projects. In particular, a significant portion of the Company’s current cash resources will be reserved for the petroleum drilling rig modernized modification project of Petróleos Mexicanos, the total bid value of which amounts to approximately US\$163.8 million (please refer to the announcement of the Company dated 11 December 2023 for further details). The Share Subscription would enable the Company to raise funds for investing in new opportunities as further described below.

The gross proceeds from the Share Subscription will be approximately HK\$324,343,400. The net proceeds (after deducting relevant costs and expenses) from the Share Subscription will be approximately HK\$320,343,400 and the net Subscription Price will be approximately HK\$0.1975 per Share. The net proceeds from the Share Subscription are intended to be used to develop the Group’s business in the green energy sector to cope with the global energy revolution. The net proceeds will also be used to supplement the Company’s general liquidity.

Upon Completion, CM Group will become interested in more than 50% of the issued share capital of the Company. The Share Subscription will allow the China Merchants Group more flexibility and higher efficiency in supporting the long-term business development of the Company, which in turn facilitates the Company to realise its own long-term development strategy. CM Group’s increase in shareholding in the Company also indicates its confidence in the continued long-term growth of the Company.



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The Share Subscription will also allow the consolidation of resources in the science and technology fields within the China Merchants Group. This will allow the Company to further focus on the synergistic development of green energy technology and assist the Company in becoming a successful platform for high-end green energy equipment manufacturing. This will be a key aspect in the Company achieving its medium and long term goals of being an industry leading provider of technologically innovative green energy and equipment services.

With reference to the Letter from the Board, the Company intends to use the net proceeds for the development of hydrogen, machinery and electricity related businesses, such funding will provide necessary funding for the Company to further focus on the synergistic development of green energy technology and assist the Company in becoming a successful platform for high-end green energy equipment manufacturing, achieving its medium and long term goals. These initiatives will enhance the Company's operational scale and industry ranking, helping to realize its growth potential and sustain its long-term competitiveness.

We have discussed with the Management regarding further details of the aforesaid plans in using the net proceeds, being (i) approximately 46.8% of the net proceeds from the Share Subscription are intended to be used to enhance the Company's hydrogen energy business, focusing on the next generation research and development for core components of electrolyzers such as diaphragms and electrodes, upgrading automated production lines (including achieving capacity consolidation and production line upgrades, targeting an annual production capacity of 100 sets of 1,000 standard cubic electrolyzers), recruiting more talents and strengthening the research and development team; (ii) approximately 46.8% will be used in the operation of green energy related projects, projects with demonstration effect, representing exemplary projects demonstrating the relevant features of the operation of green energy with the intention of marketing to attract potential customers; and (iii) the remaining net proceeds will be used to supplement the Company's general liquidity. We note from the 2023 Annual Report and as discussed and confirmed with the Management that it is consistent with the aforesaid plan, being the medium to long term goal of the Company, to focus on the synergistic development of green energy technology development and application, high-end energy equipment research and development and manufacturing, in particular the strategy transformation of the Group by continuing to develop the Group's business in the green energy sector in line with the global energy revolution, and will rely its' technological expertise in conventional energy and experience in hydrogen energy and offshore wind power to achieve comprehensive development. In view of the above, we consider the intended use of the net proceeds to be justifiable.



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In addition to the benefits mentioned above, we are of the view that the use of proceeds for the development of hydrogen, machinery and electricity related businesses is in line with the development plan of the PRC government and the Company's development strategy. In this respect, we have considered the following:

- (i) according to the "Hydrogen Industry Development Mid- to Long-Term Plan" (2021-2035)* 《氫能產業發展中長期規劃（2021-2035年）》 published by the National Development and Reform Commission (NDRC) and the National Energy Administration (NEA) of the PRC on 23 March 2022, by 2030, it plans to establish a comprehensive technological innovation system for the hydrogen industry, develop a clean energy hydrogen production and supply system, and strongly support the achievement of the carbon peak goal. By 2035, the industry aims to create a diverse hydrogen application ecosystem and significantly increase the proportion of renewable energy hydrogen in end-use energy consumption;
- (ii) as further mentioned in the "Hydrogen Industry Development Mid- to Long-Term Plan" (2021-2035)* 《氫能產業發展中長期規劃（2021-2035年）》，it outlines key measures to promote high-quality development of the hydrogen industry: first, it aims to systematically build an innovation system for the hydrogen industry, focusing on key areas and critical stages. This includes creating an industrial innovation support platform, continuously enhancing core technological capabilities, and fostering the development of a professional talent team. Second, it coordinates the construction of hydrogen infrastructure by strategically placing hydrogen production facilities and steadily building a storage and transportation system along with a hydrogen refueling network. Third, it promotes the diversified application of hydrogen in an orderly manner, including in the transportation and industrial sectors, while exploring pathways for commercial development. The Group can be beneficial from the above various stages development plan from its expertise and research and development team;
- (iii) the Group is principally engaged in building a "Hydrogen, Machinery, Electricity" industrial layout focused on areas of hydrogen-based fuel equipment production and application (hydrogen), ocean energy equipment (machinery), and electric power drive and control (electricity), with a commitment to creating industry leading products and being an industry leading provider of technologically innovative green energy and equipment services; and
- (iv) the Group has made continuous effort in enhancing the future commercialisation of hydrogen industry. With reference to the 2024 Interim Report, the "R&D and Industrialization of Off-grid High-performance Alkaline Hydrogen Generation Equipment"* (離網高性能鹼性制氫裝備研發及產業化) project of Hua Xia Hydrogen Technology (Xiamen) Co., Ltd.* (華商廈庚氫能技術(廈門)有限公司), the Group's associate, won the gold prize in the 3rd TERA-Award Smart Energy Innovation Competition out of 450 projects from 59 countries and regions around the world; and the first sale of hydrogen electrolysis equipment was realised. The Company is also actively seizing the opportunities of the booming global hydrogen industry to proactively connect with overseas hydrogen projects.



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Accordingly, we are of the view that the use of proceeds for the development of hydrogen, machinery and electricity related businesses is in line with the Group's existing development strategy and supports the growth of its principal businesses.

Taking into account the above, (i) the Share Subscription will provide necessary funding to the Company for its continuous business development; (ii) the use of proceeds for the development of hydrogen, machinery and electricity related businesses is in line with the development plan of the PRC government and the Company's own medium and long term development strategy; and (iii) the Share Subscription indicates confidence in the continued long-term growth of the Company from the Subscriber, we consider that although the Share Subscription is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

4. *Principal terms of the Share Subscription*

Set out below are the principal terms and conditions of the Subscription Agreement, details of which are set out in the section headed "THE SHARE SUBSCRIPTION" in the Letter from the Board:

Date:	30 December 2024
Parties:	(a) the Company (as issuer) (b) the Subscriber (as subscriber)
Subscription Price per Subscription Share:	HK\$0.20
Aggregate Subscription Price:	HK\$324,343,400
Aggregate nominal value of Subscription Shares:	HK\$162,171,700
The Subscription Shares:	The Subscription Shares which will be issued upon Completion represent: (a) approximately 50% of the issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 33.33% of the issued share capital of the Company as enlarged by the issuance and allotment of the Subscription Shares, assuming there is no other change to the share capital of the Company from the Latest Practicable Date up to the Completion Date.



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The Subscription Shares shall be issued and allotted pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

Ranking:

The Subscription Shares, when issued and allotted, shall rank *pari passu* in all respects among themselves and with the Shares in issue (including the rights as to dividends, voting and return of capital). Holders of the Subscription Shares will be entitled to receive all future dividends and distributions which are declared, made or paid with reference to a record date falling on or after the date of issuance and allotment of the Subscription Shares.

Subscription Price:

The Subscription Price represents:

- (a) a discount of approximately 3.5% to the closing price of HK\$0.207 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of 25.00% over the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; a premium of approximately 29.03% over the closing price of HK\$0.155 per Share as quoted on the Stock Exchange on the trading day prior to the date of the Subscription Agreement;
- (c) a premium of approximately 29.03% over the closing price of HK\$0.155 per Share as quoted on the Stock Exchange on the trading day prior to the date of the Subscription Agreement;
- (d) a premium of approximately 25.79% over the average closing price of approximately HK\$0.159 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement;
- (e) a premium of approximately 16.28% over the average closing price of approximately HK\$0.172 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to the date of the Subscription Agreement;



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- (f) a premium of approximately 11.11% over the average closing price of approximately HK\$0.180 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days immediately prior to the date of the Subscription Agreement;
- (g) a discount of approximately 52.49% to the audited consolidated net asset value per Share as at 31 December 2023 of approximately HK\$0.421 per Share, calculated based on the audited consolidated net assets of the Group of approximately US\$175,824,000 as at 31 December 2023 as extracted from the 2023 annual report of the Company and 3,243,433,914 Shares then in issue;
- (h) a discount of approximately 52.83% to the unaudited consolidated net asset value per Share as at 30 June 2024 of approximately HK\$0.424 per Share, calculated based on the unaudited consolidated net assets of the Group of approximately US\$177,091,000 as at 30 June 2024 as extracted from the 2024 interim report of the Company and 3,243,433,914 Shares then in issue; and
- (i) no theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) given that the Subscription Price is higher than the benchmarked price (as defined under Rule 7.27B of the Listing Rules) of HK\$0.160 per Share.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to (i) the historical market prices of the Shares; (ii) the trading liquidity of the Shares; (iii) the Company's future development plans and related funding needs; (iv) the net asset value per Share; and (v) the reasons for and benefits of the Share Subscription as referred to in the section headed "Reasons for and Benefits of the Share Subscription and Use of Proceeds" in the Letter from the Board.



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Conditions precedent of the Share Subscription

Completion of the Share Subscription is conditional upon satisfaction or (if applicable) waiver of the following conditions:

- (a) the approval at the EGM of (i) the issuance and allotment of the Subscription Shares to the Subscriber; and (ii) the Whitewash Waiver;
- (b) the granting of the Whitewash Waiver by the Executive and such waiver not having been subsequently revoked or withdrawn;
- (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Subscription Shares and such approval not having been subsequently revoked or withdrawn;
- (d) all necessary internal and external approvals, authorisations, consents, filings and reports for the implementation or completion of the Share Subscription having been obtained or duly filed (as applicable) by the Company and such approvals and consents remaining in full force and effect;
- (e) all necessary approvals, authorisations, consents, filings and reports for the implementation or completion of the Share Subscription having been obtained or duly filed (as applicable) by the Subscriber and such approvals and consents remaining in full force and effect, including but not limited to approval of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC in respect of the Share Subscription;
- (f) on the Completion Date, (i) the representations, warranties and undertakings given by the Company under the Subscription Agreement being true, accurate and correct in all material respects and not misleading; and (ii) the Company having performed or satisfied all of its agreements, undertakings and obligations under the Subscription Agreement to be performed on or before the Completion Date in all material respects; and
- (g) on the Completion Date, (i) the representations, warranties and undertakings given by the Subscriber under the Subscription Agreement being true, accurate and correct in all material respects and not misleading; and (ii) the Subscriber having performed or satisfied all of its agreements, undertakings and obligations under the Subscription Agreement to be performed on or before the Completion Date in all material respects.

As at the Latest Practicable Date and based on information available to the Company, other than those specifically set out in conditions (a), (b), (c) and (e) above, the Company is not aware of any other approvals, authorisations, consents, filings and reports which are required as set out in the conditions in paragraphs (d) and (e) above.



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The Subscriber may waive any of the conditions as set out in paragraphs (e) and (f) above. The Company may waive any of the conditions as set out in paragraphs (d) and (g) above. The conditions as set out in paragraphs (a) to (c) are not capable of being waived. As at the Latest Practicable Date, none of the conditions as set out above has been satisfied or (if applicable) waived.

Completion of the Share Subscription

Completion of the Share Subscription shall take place within five Business Days (or such other date as agreed to in writing between the Company and the Subscriber) upon the satisfaction or waiver of the conditions under the Subscription Agreement, upon which the Company shall issue and allot the Subscription Shares to the Subscriber and the Subscriber shall pay to the Company the aggregate Subscription Price.

Other terms of the Subscription Agreement

For details of other terms of the Subscription Agreement, including termination of the Subscription Agreement please refer to the section headed "THE SHARE SUBSCRIPTION" in the Letter from the Board.

5. *Fund-raising activities of the Company during the past twelve months*

As set out in the Letter from the Board, the Company had not conducted any fund-raising activities involving the issuance of equity securities in the 12 months immediately preceding the Latest Practicable Date.

6. *Analysis on the Subscription Price*

The Subscription Price of HK\$0.20 per Subscription Share represents:

- (a) a discount of approximately 3.5% to the closing price of HK\$0.207 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of 25.00% over the closing price of HK\$0.160 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; a premium of approximately 29.03% over the closing price of HK\$0.155 per Share as quoted on the Stock Exchange on the trading day prior to the date of the Subscription Agreement;
- (c) a premium of approximately 25.79% over the average closing price of approximately HK\$0.159 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement;
- (d) a premium of approximately 16.28% over the average closing price of approximately HK\$0.172 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to the date of the Subscription Agreement;



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- (e) a premium of approximately 11.11% over the average closing price of approximately HK\$0.180 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days immediately prior to the date of the Subscription Agreement;
- (f) a discount of approximately 52.49% to the audited consolidated net asset value per Share as at 31 December 2023 of approximately HK\$0.421 per Share, calculated based on the audited consolidated net assets of the Group of approximately US\$175,824,000 as at 31 December 2023 as extracted from the 2023 annual report of the Company and 3,243,433,914 Shares then in issue; and
- (g) a discount of approximately 52.83% to the unaudited consolidated net asset value per Share as at 30 June 2024 of approximately HK\$0.424 per Share, calculated based on the unaudited consolidated net assets of the Group of approximately US\$177,091,000 as at 30 June 2024 as extracted from the 2024 interim report of the Company and 3,243,433,914 Shares then in issue.

With a view to assessing the fairness and reasonableness of the Subscription Price, we have performed review and/or analysis on (i) the daily closing price of the Shares as quoted on the Stock Exchange for (a) a period of twelve months prior to the date of the Subscription Agreement, from 29 December 2023 up to and including the date of the Subscription Agreement (i.e. 30 December 2024) (the “**First Review Period**”). A review period of twelve months was selected on the basis that it is a commonly adopted timeframe for share price analysis in the market that is adequately lengthy to illustrate the recent trend of the closing prices of the Shares, which in turn facilitates our analysis on the Subscription Price, the closing prices of the Shares and its trading volume for the purpose of assessing the fairness and reasonableness of the Subscription Price; and (b) the period commencing from 31 December 2024, being the trading day immediately after the date of the Subscription Agreement and up to and including the Latest Practicable Date (the “**Second Review Period**”, together with the First Review Period, the “**Review Period**”); (ii) the trading volume of the Shares during the Review Period; and (iii) market comparable transactions, including comparable share issues.

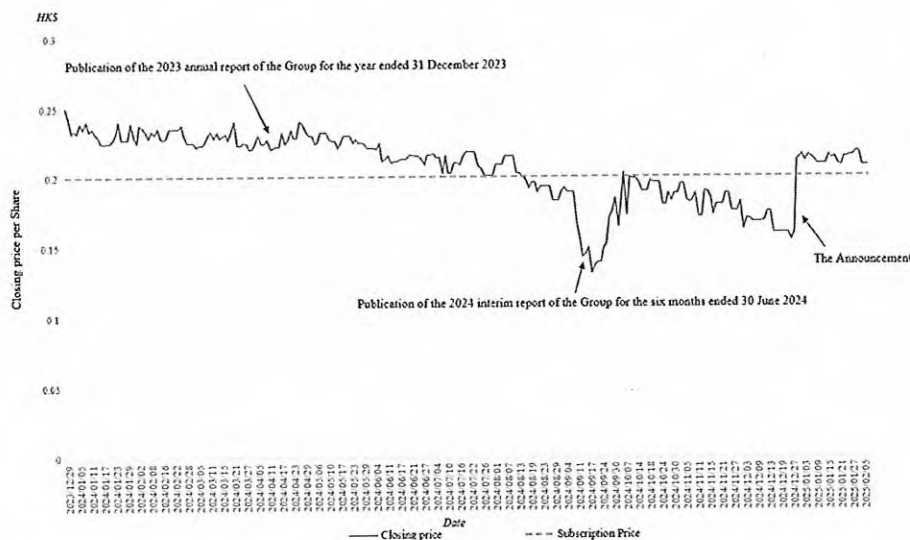


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(i) Analysis on the performance of historical closing Share price

With a view to assessing the reasonableness of the Subscription Price, we have conducted analysis on the daily closing price of the Shares as quoted on the Stock Exchange during the Review Period and set out in the chart below:



Source: The website of the Stock Exchange (www.hkex.com.hk)

Since the commencement of the First Review Period and up to 10 September 2024, the closing Share prices were broadly stable and fell within the range of HK\$0.183 (29 August 2024, 30 August 2024 and 2 September 2024) to HK\$0.250 (29 December 2023). However, the closing Share price experienced a general decline since 11 September 2024 from HK\$0.167 (11 September 2024) to HK\$0.132 (19 September 2024). During the aforesaid period, namely from the commencement of the First Review Period up to the 19 September 2024, the Company issued (a) 2023 Annual Report dated 19 April 2024; and (b) 2024 Interim Report dated 16 September 2024, which reported a profit attributable to owners of the Company of approximately US\$4,786,000 for the six months ended 30 June 2024 compared to approximately US\$4,791,000 for the six months ended 30 June 2023. Subsequently, from 20 September 2024 and up to the date of the Subscription Agreement (i.e. 30 December 2024), the closing Share price fluctuated and fell within the range of HK\$0.137 (20 September 2024) to HK\$0.203 (7 October 2024).

In summary, the Subscription Price of HK\$0.20 is (a) within range of the closing Share price during the First Review Period between HK\$0.132 and HK\$0.250; (b) at a premium over the closing Share price as at the date of the Subscription Agreement; and (c) at a premium over the average closing price of each of the five, ten, 30 and 60 consecutive trading days immediately prior to the date of the Subscription Agreement of approximately HK\$0.159, approximately HK\$0.163, approximately HK\$0.172 and approximately HK\$0.180 per Share as quoted on the Stock Exchange, respectively, being commonly adopted parameters for assessing the fairness and reasonableness of the subscription price for similar transactions in the market.



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Since the Company issued interim results for the six months ended 30 June 2024 on 27 August 2024 (the “2024 Interim Results Announcement”), the closing prices of the Shares before the publication of 2024 Interim Results Announcement may not reflect the latest business development and financial position of the Group, we considered that the more recent the closing prices of the Shares since the publication of 2024 Interim Results Announcement, the more relevant it would be for our assessment of the fairness and reasonableness of the Subscription Price. We noted that the average closing price of approximately HK\$0.176 per Shares as quoted on the Stock Exchange since the trading day after the publication of 2024 Interim Results Announcement (i.e. 28 August 2024) and up to the last trading day immediately prior to the date of the Subscription Agreement (i.e. 27 December 2024), which is at a premium of approximately 13.48% over the Subscription Price. The closing Share price analysis for the Review Period is for illustration and information purposes. As the Shareholders, who are not Directors or insiders of the Company, are free to trade the Shares of their own accord, we considered that the closing Share prices, particularly those close to the date of the Subscription Agreement, are a reflection of the market value of the Shares, thus we considered it to be one of the appropriate benchmarks to assess the fairness and reasonableness of the Subscription Price.

For the Second Review Period, the closing Share price ranged from HK\$0.207 (10 February 2025) to HK\$0.218 (3 February 2025 and 4 February 2025). It is noted that the general increase trend of the closing Share price during the Second Review Period may be affected by the market reactions in response to the Share Subscription and the Whitewash Waiver as set out in the Announcement. On this basis, the closing Share prices of the Second Review Period have their limitations for assessing the fairness and reasonableness of the Subscription Price. Therefore, when considering the fairness and reasonableness of the Subscription Price, we have primarily focused our analysis on the closing Share prices for the trading days after the publication of 2024 Interim Results Announcement and up to the last trading day immediately prior to the date of the Subscription Agreement during the Review Period.



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(ii) Analysis on the trading liquidity of the Shares during the Review Period

As part of our assessment on the Subscription Price, we have also conducted analysis on the trading liquidity of the Shares during the Review Period and set forth below a summary of (a) number of trading days of each month; (b) the monthly trading volume of Shares; (c) the average daily trading volume of Shares of each month; (d) the average daily trading volume as a percentage of the then total number of Shares issued of each month; and (e) average daily trading volume as a percentage of the then total number of Shares held by public Shareholder of each month:

	Total trading volume of Shares of the month	Number of trading days of the month	Average daily trading volume of Shares of the month	Average daily trading volume as a percentage of the then total number of Shares issued ^(Note 1)	Average daily trading volume as a percentage of the then total number of Shares held by public Shareholders ^(Note 2)
	Number of Shares	Days	Number of Shares	Approximate percentage (rounded to 3 decimal places)	Approximate percentage (rounded to 3 decimal places)
2023					
December	47,000	1	47,000	0.001%	0.003%
2024					
January	8,240,000	22	374,545	0.012%	0.027%
February	7,436,000	19	391,368	0.012%	0.028%
March	11,404,000	20	570,200	0.018%	0.041%
April	7,750,000	20	387,500	0.012%	0.028%
May	10,493,000	21	499,667	0.015%	0.036%
June	1,184,000	19	62,316	0.002%	0.004%
July	2,489,000	22	113,136	0.003%	0.008%
August	3,041,000	22	138,227	0.004%	0.010%
September	7,306,000	19	384,526	0.012%	0.028%
October	4,598,000	21	218,952	0.007%	0.016%
November	1,968,000	21	93,714	0.003%	0.007%
December	16,369,000	20	818,450	0.025%	0.059%
2025					
January	12,649,000	19	665,737	0.021%	0.048%
February (up to and including the Latest Practicable Date, i.e. 10 February 2025)	1,556,000	6	259,333	0.008%	0.019%
Average				0.010%	0.024%
Maximum				0.025%	0.059%
Minimum				0.001%	0.003%

Source: The website of the Stock Exchange (www.hkex.com.hk)



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Note:

- (1) Calculated based on the total number of Shares in issue at the respective month end.
- (2) Calculated based on the total number of the Shares held by public shareholders as set out in the Letter from the Board as at the Latest Practicable Date.

As set out in the table above, the average daily trading volume of the Shares ranged from approximately 47,000 Shares (December 2023) to approximately 818,450 Shares (December 2024) during the Review Period, the low-end and high-end of the range respectively represent an average daily trading volume of approximately 0.001% (December 2023) to 0.025% (December 2024) of the then total number of Shares in issue, and approximately 0.003% to 0.059% of the total number of Shares held by public Shareholders. On this basis, the overall liquidity of the Shares has been thin in general during the Review Period, which typically indicates that it would be difficult for the Company to conduct sizeable equity financing alternatives without a notable discount.

(iii) Fund raising alternatives considered by the Company

We noted from the Letter from the Board that the Company had explored and assessed other financing alternatives, including both debt and equity financing, prior to entering into the Subscription Agreement with the Subscriber.

Among the other financing alternatives available to the Company, the Company considered that the Share Subscription is an appropriate and cost effective fundraising method to the Company. Comparing to debt financing, the Share Subscription is lower in finance cost, with reference to the data and statistics released by the Hong Kong Monetary Authority¹, the interest rates for 1-year loan and 10-year loan were approximately 4.75% and 3.81%, respectively, representing the cost would be no less than approximately HK\$15.2 million or HK\$12.2 million per year calculated based on the consideration, and not required to provide collaterals and able to optimise the capital structure of the Company. Comparing to other equity issuance methods, such as rights issue, open offer and placing new shares to an independent third party, as discussed with the Company and the financial adviser to the Company, such costs would be no less than approximately HK\$5.0 million including the underwriting commission, the Share Subscription is lower in issuance cost and is less time-consuming.

¹ Data and statistics released by the Hong Kong Monetary Authority (<https://www.hkma.gov.hk/eng/data-publications-and-research/data-and-statistics/economic-financial-data-for-hong-kong/>)



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(iv) *Analysis on transactions which involved the issuance of shares under specific mandate*

Having considered the background of the Share Subscription, including that the Subscription Shares will be allotted and issued under Specific Mandate, we have conducted market research with a view to identifying transactions of listed companies based on the following criteria (the “**Initial Share Issuance Criteria**”), namely:

- (a) transactions that involved (aa) the issuance of shares under specific mandate (excluding transactions involving issuance for restructuring scheme or acquisition purposes given that such transactions often involve broader financial reorganisation and complex financial manoeuvres); and (bb) whitewash waiver;
- (b) the announcement(s) in relation to subject transactions as set out under paragraph (a) above is published by a company listed on the Stock Exchange, during the period commencing from twelve months prior to the date of the Subscription Agreement (i.e. 29 December 2023) and up to and including the Latest Practicable Date (the “**Initial Comparable Review Period**”); and
- (c) the subject transaction has obtained the relevant independent shareholders’ approval.

Based on the Initial Share Issuance Criteria, we have identified five comparable transactions. Given the limited number of comparable transactions, with a view to obtain a larger and more representative sample size, we have extended the Initial Comparable Review Period to a period of two years prior to the date of the Subscription Agreement (i.e. 29 December 2022) and up to and including the Latest Practicable Date (the “**Final Comparable Review Period**”) while keeping all other Initial Share Issuance Criteria the same (together, the “**Final Share Issuance Criteria**”). On this basis, we have identified an exhaustive list of 11 share issuances (the “**Share Issuance Comparables**”).



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We noted that the Share Issuance Comparables may be undertaken by listed companies with different background, business nature, financial performance, financial position and size. However, as no transactions are identical in all material aspects and the Share Issuance Comparables have been selected based on the Share Issuance Criteria which are determined based on the key characteristics of the Share Subscription, namely the issuance of shares under specific mandate, we considered the Share Issuance Comparables to be a representative sample and can serve as a useful general market reference for recent market practice in relation to terms of issuance of shares under specific mandates for the purpose of our analysis. We have set out our analysis in the following table:

Company name (stock code)	Date of announcement	Premium/(Discount) of subscription price over/to the average closing price per share for the last five consecutive trading days immediately prior to/including the respective last trading day/date of the respective announcement/ agreement (Note 1)	the average closing price per share for the last ten consecutive trading days immediately prior to/including the respective last trading day/date of the respective announcement/ agreement (Note 1)	the average closing price per share for the last 30 consecutive trading days immediately prior to/including the respective last trading day/date of the respective announcement/ agreement (Note 1)	Maximum dilution effect to the existing public shareholders attributable to the subject agreement (Note 2)	
Changan Minsheng APLL Logistics Co., Ltd. (1292)	22 August 2024	47.87%	45.55%	47.09%	38.31%	6.87%
Sinopharm Tech Holdings Limited (8156)	14 June 2024	(18.70%)	(18.70%)	(18.00%)	(13.00%)	65.70%
Lianhua Supermarket Holdings Co., Ltd. (980)	12 May 2024	249.37%	273.05%	323.27%	396.77%	8.10%
China Qidian Guofeng Holdings Limited (1280)	18 March 2024	(31.37%)	(31.64%)	(30.97%)	(42.24%)	39.28%
Enviro Energy International Holdings Limited (1102)	7 February 2024	(10.70%)	(5.70%)	(0.20%)	11.40%	43.94%
Deaon Environmental & Technology Holdings Limited (1452)	6 November 2023	(4.00%)	2.56%	(1.44%)	(10.95%)	8.85%



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Company name (stock code)	Date of announcement	Premium/(Discount) of subscription price over/to				Maximum dilution effect to the existing public shareholders attributable to the subject agreement (Note 2)
		the average closing price per share for the last five consecutive trading days immediately prior to/including the respective last trading day/date of the respective announcement/ agreement (Note 1)	the average closing price per share for the last ten consecutive trading days immediately prior to/including the respective last trading day/date of the respective announcement/ agreement (Note 1)	the average closing price per share for the last 30 consecutive trading days immediately prior to/including the respective last trading day/date of the respective announcement/ agreement (Note 1)	the average closing price per share for the last 30 consecutive trading days immediately prior to/including the respective last trading day/date of the respective announcement/ agreement (Note 1)	
China Greenland Broad Greenstate Group Company Limited (1253)	27 September 2023	(16.67%)	(6.54%)	(12.28%)	(15.25%)	7.10%
VPower Group International Holdings Limited (1608)	12 June 2023	2.44%	5.00%	7.69%	13.51%	21.76%
Energy International Investments Holdings Limited (353)	28 April 2023	(5.50%)	(8.40%)	(7.60%)	(32.20%)	23.35%
HONGHUA GROUP LIMITED (196)	18 January 2023	(1.71%)	(3.51%)	(1.63%)	4.89%	19.47%
COFCO Joycome Foods Limited (1610)	11 January 2023	(1.71%)	(2.13%)	0.88%	(4.55%)	10.40%
	Maximum	249.37%	273.05%	323.27%	396.77%	65.70%
	Minimum	(31.37%)	(31.64%)	(30.97%)	(42.24%)	6.87%
	Average	19.03%	22.69%	27.89%	31.52%	23.17%
	Median	(4.00%)	(3.51%)	(1.44%)	(4.55%)	19.47%
The Company		25%; 29.03% (Note 3)	25.79%	22.7%	16.28%	14.3%