



## **SOMERLEY CAPITAL LIMITED**

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21 May 2025

*To: the Independent Board Committee and Independent Shareholders*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION IN RELATION TO THE RENEWAL OF FINANCIAL SERVICES FRAMEWORK AGREEMENT**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Deposit Services contemplated under Financial Services Framework Agreement and the Annual Cap, details of which are set out in the letter from the Board of the circular of the Company dated 21 May 2025 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 29 April 2025, the Company and SPIC Financial entered into the Financial Services Framework Agreement, pursuant to which SPIC Financial has agreed to provide the Group with Deposit Services, settlement services, loan services and other financial services approved by the NFRA on a non-exclusive basis, for a term of three years from 7 June 2025 to 6 June 2028.

As at the Latest Practicable Date, SPIC owns approximately 65.19% of the issued share capital of the Company and is the ultimate controlling shareholder of the Company. Accordingly, SPIC, its subsidiaries and associates are connected persons of the Company under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, SPIC Financial, being a subsidiary ultimately owned and controlled by SPIC, is a connected person of the Company as defined in the Listing Rules. Accordingly, the transactions contemplated under the Financial Service Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.



In respect of the proposed annual caps of the Deposit Services, as certain applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Annual Cap exceeds 25% but are all less than 100%, the Deposit Services therefore constitute (i) non-exempt continuing connected transactions subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules; and (ii) also a major transaction of the Company subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely LI Fang, YAU Ka Chi and HUI Hon Chung, Stanley, has been established to advise the Independent Shareholders in relation to the Deposit Services and the Annual Cap. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated or connected with the Company, SPIC, SPIC Financial or their respective close associates or core connected persons and, accordingly, are considered eligible to give independent advice on the Deposit Services and the Annual Cap. In the last two years prior to this appointment, saved for our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Company in relation to the Proposed Asset Restructuring, as defined and set out in the circular of the Company dated 20 May 2025, there was no engagement between the Group and us. The aforementioned transactions for which we were engaged to provide independent advice on are not related to the Financial Services Framework Agreement. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, SPIC, SPIC Financial or their respective close associates or core connected persons. Accordingly, we are independent pursuant to Rule 13.84 of the Hong Kong Listing Rules and are considered eligible to give independent advice on the Deposit Services and the Annual Cap.

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company, which we have assumed to be true, accurate and complete in all material aspects. We have reviewed the information of the Company, including, among other things, (i) the annual reports of the Company for the year ended 31 December 2023 (the **"2023 Annual Report"**) and 2024 (the **"2024 Annual Report"**); and (ii) other information contained in the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed by the Directors and management of the Company (collectively, the **"Management"**), which we have assumed to be true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete in all material aspects up to the date of the general meeting. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information



provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group and SPIC Financial, nor have we carried out any independent verification of the information supplied.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Deposit Services and the Annual Cap, we have considered the following principal factors and reasons:

### 1. Information on the Group

The Company is a core subsidiary of SPIC. The Group is principally engaged in generation and sales of electricity in Mainland China, including investment, development, operation and management of hydropower, wind power, photovoltaic power and thermal power plants; and provision of energy storage, green power transportation, and integrated intelligent energy solution services. Its businesses are located in various major power grid regions of China.

Set out below is the summary of the financial information of the Group for the three years ended 31 December 2022, 2023 and 2024 as extracted from the 2023 Annual Report and 2024 Annual Report:

|                                                             | For the year ended 31 December |                   |                   |
|-------------------------------------------------------------|--------------------------------|-------------------|-------------------|
|                                                             | 2024                           | 2023              | 2022              |
|                                                             | RMB'000                        | RMB'000           | RMB'000           |
|                                                             | (Audited)                      | (Audited)         | (Audited)         |
| <b>Revenue</b>                                              |                                |                   |                   |
| — Thermal power                                             | 24,268,883                     | 23,929,482        | 28,583,266        |
| — Wind power                                                | 11,737,415                     | 8,719,661         | 5,232,439         |
| — Photovoltaic power                                        | 9,491,881                      | 6,011,637         | 4,292,128         |
| — Hydropower power                                          | 4,806,371                      | 3,052,804         | 4,685,036         |
| — Energy storage                                            | 3,908,242                      | 2,548,183         | 896,260           |
|                                                             | <u>54,212,792</u>              | <u>44,261,767</u> | <u>43,689,129</u> |
| <b>Operating profit</b>                                     | <u>12,167,191</u>              | <u>8,715,187</u>  | <u>7,604,262</u>  |
| <b>Profit attributable to equity holders of the Company</b> | <u>3,861,822</u>               | <u>3,084,469</u>  | <u>2,648,051</u>  |



*For the two years ended 31 December 2023 and 2024*

Revenue of the Group amounted to approximately RMB54,212.79 million for the year ended 31 December 2024, representing an increase of approximately 22.48% compared with that of approximately RMB44,261.77 million for the year ended 31 December 2023. As disclosed in the 2024 Annual Report, revenue from hydropower increased by approximately RMB1,753.57 million, which was attributable to the increase in electricity sales of hydropower during the year. Revenue from wind power and photovoltaic power increased by approximately RMB6,498.00 million in total due to the expansion of consolidated installed capacity through strategic mergers and acquisitions and the commencement of commercial operation of various power generation projects. Revenue from thermal power moderately increased by approximately RMB339.40 million, which was attributable to the higher demand for frequency-modulating and peak-shaving power sources within the power system. Revenue from energy storage increased by RMB1,360.06 million as the Group consistently expanded its energy storage business.

Operating profit of the Company amounted to approximately RMB12,167.19 million for the year ended 31 December 2024, representing an increase of approximately 39.61% as compared with that of approximately RMB8,715.19 million for the previous year, mainly due to the aforementioned increase in revenue.

Profit attributable to the equity holders of the Company increased by approximately 25.20% for the year ended 31 December 2024 as compared to that for the prior year. With reference to the 2024 Annual Report, such increase was mainly due to the net effect of (i) the increase in operating profit as mentioned above; (ii) the increase in profits from the share of results of associates; and (iii) the increase in the finance costs primarily due to the increase in interest expense on bank borrowings.

*For the two years ended 31 December 2022 and 2023*

Revenue of the Group amounted approximately RMB44,261.77 million for the year ended 31 December 2023, representing an increase of approximately 1.31% compared with that of approximately RMB43,689.13 million for the year ended 31 December 2022. As disclosed in the 2023 Annual Report, revenue from hydropower decreased by approximately RMB1,632.23 million, which was attributable to the decrease in electricity sales of hydropower during the year. Revenue from wind power and photovoltaic power increased by approximately RMB5,206.73 million in total due to the consolidation and commencement of commercial operation of various projects. Revenue from thermal power decreased by approximately RMB4,653.78 million, which was attributable to the effect of the disposal of shares in two coal-fired power subsidiaries at the end of 2022, excluding the effects of such disposal, the revenue from thermal power would increase year-on-year. Revenue from energy storage increased by approximately RMB1,651.92 million as the Group consistently expanded its energy storage business in alignment with the rapid growth of the energy storage market.



Operating profit of the Company amounted to approximately RMB8,715.19 million for the year ended 31 December 2023, representing an increase of approximately 14.61% as compared with that of approximately RMB7,604.26 million for the previous year, mainly due to (i) the aforementioned increase in revenue; (ii) the increase in other income, mainly attributable to income from provision of IT and other services and waste treatment income; and (iii) the decrease in total fuel costs, mainly due to the significant decrease in fuel consumption after the disposal of shares in two coal-fired power subsidiaries at the end of 2022.

Profit attributable to the equity holders of the Company increased by approximately 16.48% for the year ended 31 December 2023 as compared to that for the prior year. With reference to the 2023 Annual Report, such increase was mainly due to (i) the increase in operating profit as mentioned above; and (ii) the increase in profits from the share of results of associates primarily driven by the year-on-year decrease in coal prices, which resulted in a substantial year-on-year profit growth of associates engaged in coal-fired power-related businesses.

Set out below is the summary of the financial position of the Group as at 31 December 2022, 2023 and 31 December 2024 as extracted from the 2023 Annual Report and 2024 Annual Report:

|                   | As at 31 December  |                    |                    |
|-------------------|--------------------|--------------------|--------------------|
|                   | 2024               | 2023               | 2022               |
|                   | RMB'000            | RMB'000            | RMB'000            |
|                   | (Audited)          | (Audited)          | (Audited)          |
| Total assets      | <u>340,455,547</u> | <u>305,806,779</u> | <u>211,404,964</u> |
| Total liabilities | <u>232,923,154</u> | <u>210,786,067</u> | <u>142,814,859</u> |
| Total equity      | <u>107,532,393</u> | <u>95,020,712</u>  | <u>68,590,105</u>  |

As at 31 December 2024, the Group's total assets amounted to approximately RMB340,455.55 million, mainly comprised of (i) property, plant and equipment of approximately 226,873.37 million; (ii) accounts receivables of approximately RMB31,647.50 million; and (iii) other intangible assets of approximately RMB14,960.69 million. As at 31 December 2024, the Group has cash and cash equivalents and restricted deposits of approximately RMB6,073.62 million and RMB60.66 million, respectively.

As at 31 December 2024, the Group's total liabilities amounted to approximately RMB232,923.15 million, mainly comprised of (i) bank borrowings of approximately RMB140,523.15 million; (ii) borrowings from related parties of approximately RMB28,283.62 million; (iii) other borrowings of approximately RMB23,587.72 million; and (iv) construction costs payable of approximately RMB18,218.51 million.



As at 31 December 2024 and 31 December 2023, the Group's total equity amounted to approximately RMB107,532.39 million and RMB95,020.71 million, respectively, representing an increase of approximately 13.17%.

In our view, based on the above analysis, the Group has financed its growth and retained a satisfactory financial position.

## **2. Information on SPIC Financial**

SPIC Financial was established in the PRC as a nonbanking financial institution on 2 September 1992. It is licensed and regulated by the NFRA and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrusted loans and entrusted investment, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory, credit certification and other advisory agency services and guarantee services to members of the SPIC Group. SPIC Financial only provides services to members of the SPIC Group under the Measures on Administration of the Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》) (the “**Administrative Measures**”) promulgated by the NFRA. SPIC Financial has a registered capital of RMB7.5 billion and is owned as to 40.86% by SPIC and as to 59.14% by other wholly-owned and controlled members of the SPIC Group, respectively.

### *Regulatory environment of the SPIC Financial*

The SPIC Financial is a major domestic non-banking financial institution providing financial services to Members of the Group and is subject to compliance with relevant rules and regulations as promulgated by the NFRA including compliance with the Administrative Measures which is to regulate the operation of group finance companies and reduce the possible financial risk, and other regulations promulgated by the PBOC and the NFRA.



We have discussed with the Management and understand that the Administrative Measures imposes certain requirements on finance companies such as the SPIC Financial, including but not limited to, maintaining certain capital adequacy, cash balance and liquidity ratios. We also requested and obtained the rating score sheet from the regulatory authority, which illustrated the specific major regulatory ratio requirements. Set out below are the major regulatory ratio requirements confirmed by the Company to be applicable the relevant ratios of the SPIC Financial as at 31 December 2024:

| Major regulatory ratios                            | Requirements                                            | As at<br>31 December 2024 |
|----------------------------------------------------|---------------------------------------------------------|---------------------------|
| Capital adequacy ratio                             | Not lower than the regulatory requirement <i>(Note)</i> | 16.5%                     |
| Non-performing asset ratio                         | Not higher than 3%                                      | 0.02%                     |
| Impaired loan ratio                                | Not higher than 2%                                      | 0.04%                     |
| Current ratio                                      | Not lower than 25%                                      | 60.7%                     |
| Self-owned fixed assets to total net capital ratio | Not higher than 20%                                     | 2.22%                     |
| Guarantee Ratio                                    | Not higher than 100%                                    | 0.35%                     |

*Note:* According to NFRA, the regulatory requirement is not lower than 10.5%

As shown in the table above, we note that all applicable ratios of the SPIC Financial are in compliance with the regulatory requirements as promulgated by the NFRA. As confirmed by the SPIC Financial, the NFRA has not taken any disciplinary actions, or imposed penalties or fines on the SPIC Financial since its incorporation.

As further advised by the management of SPIC Financial, SPIC Financial is required to submit quarterly compliance report regarding the business operation of SPIC Financial to the NFRA. We have further discussed and confirmed with the Company that, the Company is not aware of any record of non-compliance with the relevant rules and regulations by the SPIC Financial during the past three years.

Furthermore, pursuant to the Administrative Measures, in the event that a group finance company faces any difficulty in making payment, its controlling shareholder(s) will increase such group finance company's capital accordingly based on the actual need. We noted from SPIC Financial's articles of association that SPIC, being the controlling shareholder of the Company, undertook that SPIC will provide funding to SPIC Financial to satisfy its capital needs in the event that SPIC Financial experiences any urgent payment difficulties.



### **3. Reasons for and benefits of entering into the Financial Services Framework Agreement**

SPIC Financial has been providing financial services to the Group since June 2016 under the original financial services framework agreement, which was renewed in 2019 and 2022 respectively. On 29 April 2025, the Company entered into a new Financial Services Framework Agreement with SPIC Financial to continue with the transactions upon expiry of the Previous Framework Agreement and its Supplemental Agreement.

With reference to the letter from the Board in the Circular, reasons for and benefits of the entering into of the Financial Services Framework Agreement (including the Deposit Services) included, among other things, the following. Please refer to the section headed “6. REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENT” in the letter from the Board of the Circular for details.

#### *Increase interest income and save finance cost*

The Group generates cashflow from operating activities and maintains deposits with financial institutions and receives interest income in its ordinary course and usual course of business. The interest rate applicable to the Group for its deposits with SPIC Financial during the same period shall be no less favourable than the benchmark interest rate specified by the PBOC for the same type of deposits during the same period, and no less than the interest rate of the same type of deposits offered by other major commercial banks in the PRC to the Group during the same period, which is beneficial in improving the Group’s interest income.

To finance the Group’s operating activities as well as the development and expansion of its existing scale of power plants and stations, debt financing is often used in its ordinary and usual course of business. The interest rate of loans set by SPIC Financial for loans granted to the Group will be no less favourable than the interest rate provided by other major commercial banks in the PRC for same type of loans during the same period, and no security is to be granted by the Group over its assets in respect of such loans, enabling the lending procedure to be easier and more efficient than that provided by other major commercial banks in the PRC.

The Group uses the settlement services provided by SPIC Financial for the settlement of income and expenditure (including drawdown and repayment of borrowings from SPIC Financial) during the ordinary and usual course of business among the members of the Group. The Group may take full advantage of the favourable policy of free settlement services provided by SPIC Financial and reduce the banking commission charges payable by the Group. The fees to be charged by SPIC Financial for other financial services will be equal to or more favourable to the Group than those charged by other major commercial banks in the PRC.

Since the signing of all the previous framework agreements, the Company has noticed an enhanced efficiency in utilization of funds and that the Group has, in connection therewith, saved a considerable amount of finance costs. With the expansion of the Group’s businesses, SPIC Financial will continue to provide diversified, efficient,



expedient and secure financial services to the Group under the Framework Agreement. It is expected that by conducting the transactions under the Framework Agreement, the Group will continue to further save a considerable amount of finance costs.

*Facilitate fund management and control by the Group*

SPIC Financial has a sophisticated information system through which the Group can access the latest information concerning the collection and payment of funds of the Group as well as the status of fund balance at any time during the ordinary and usual course of business (in particular, to enable the Group to monitor the daily balance of deposits with SPIC Financial such that it does not exceed the Annual Cap), thus reducing and avoiding operational risks.

*Enhance the efficiency of fund utilization*

The Deposit Services and settlement services provided by SPIC Financial will continue to strengthen the Group's centralized fund management of its subsidiaries and reduce the time for capital transmission within the Group. The use of SPIC Financial as a clearing platform will facilitate the clearing amongst the members of the Group, reduce the time for transmitting the funds, and thereby expedite turnaround of funds.

*Risk Assurance*

Pursuant to the regulatory requirements of the NFRA, SPIC, as the controlling shareholder of SPIC Financial, has undertaken to the Company that it shall bear the primary responsibility for risk prevention and mitigation associated with SPIC Financial, thereby putting in place an effective risk isolation mechanism to preclude any spillover of risks from SPIC Financial to the Group. SPIC shall also provide financial support to SPIC Financial, including the replenishment of capital for SPIC Financial as and when necessary, in order to ensure the safety and liquidity of the deposits placed by the Group at SPIC Financial.

SPIC Financial is regulated by the NFRA and provides its services in accordance with the rules and operational requirements of the NFRA.

Pursuant to the Financial Services Framework Agreement, the interest rate applicable to the Group for its deposits with SPIC Financial during the same period shall not be lower than (i) the benchmark interest rate specified by the PBOC of the same type of deposits; (ii) the interest rate of the same type of deposits obtained from other major commercial banks in the PRC to the Group; and (iii) the interest rate of same type of deposits placed by other members of SPIC Group with SPIC Financial. In addition, subject to the above, the applicable interest rate for the amount of the Group's deposit in current account(s) that exceeds RMB100,000, will be 20 basis points higher than, and adjusted according to, the benchmark interest rate for agreements deposits (協定存款基準利率) as published by the PBOC from time to time.



We further noted from the Financial Services Framework Agreement that SPIC Financial has agreed to provide the Group with the Deposit Services, settlement services, loan services and other financial services approved by the NFRA on a non-exclusive basis subject to the terms and conditions provided therein. As disclosed in the letter from the Board, SPIC Financial is regulated by the NFRA and provides its services in accordance with the rules and operational requirements of the NFRA. Further details of the Finance Company's background and regulatory requirements are set out in the sections headed "2. Information on SPIC Financial — Regulatory environment of the SPIC Financial" above.

As disclosed in the section headed "3. Reasons for and benefits of entering into the Financial Services Framework Agreement", we noted and understand that (i) the Group generates cashflow from operating activities and maintains deposits with financial institutions and receives interest income in its ordinary course and usual course of business; and (ii) SPIC Financial has a sophisticated information system through which the Group can access the latest information concerning the collection and payment of funds of the Group as well as the status of fund balance at any time during the ordinary and usual course of business.

In light of the above reasons, in particular, (i) the Financial Services Framework Agreement was entered to renew the term of the Previous Framework Agreement with similar terms; (ii) the interest rate of the Deposit Services shall not be lower than those offered by the PBOC and other major commercial banks, and those offered to other members of SPIC Group; and (iii) the Group can utilize the Deposit Services of the SPIC Financial on a voluntary, non-exclusive basis and is not obliged to engage the SPIC Financial for any particular service and, the SPIC Financial represents an additional, reliable and stable source of financial services provider for the Group, which in turn serves to enhance flexibility for members of the Group's capital management, we concur with the Directors that the Deposit Services contemplated under the Financial Services Framework Agreement to be in the ordinary and usual course of business of the Company, and in the interests of the Company and the Shareholders.

#### **4. Principal terms of the Deposit Services**

The following table tabulates a summary of the major terms of the Deposit Services, details of which are set out in the section headed "2. THE FINANCIAL SERVICES FRAMEWORK AGREEMENT" of the letter from the Board of the Circular:

|                         |                                                                                         |
|-------------------------|-----------------------------------------------------------------------------------------|
| <b>Date</b>             | 29 April 2025                                                                           |
| <b>Parties</b>          | (i) the Company; and<br>(ii) SPIC Financial.                                            |
| <b>Effective period</b> | For a term of three years from 7 June 2025 and ended 6 June 2028 (both days inclusive). |



|                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Condition precedent</b>                        | The Framework Agreement is conditional upon the Company having obtained the approval of the Independent Shareholders at the GM approving, among other things, the continuing connected transactions under the Framework Agreement in relation to the Deposit Services and the Annual Cap.                                                                                                                                                                        |
| <b>Services to be provided</b>                    | SPIC Financial has agreed to provide the Group with deposit services, settlement services, loan services and other financial services approved by the NFRA on a non-exclusive basis.                                                                                                                                                                                                                                                                             |
| <b>Pricing principles of the Deposit Services</b> | <p>The interest rate applicable to the Group for its deposits with SPIC Financial during the same period shall not be lower than (i) the benchmark interest rate specified by the PBOC of the same type of deposits; (ii) the interest rate of the same type of deposits obtained from other major commercial banks in the PRC to the Group; and (iii) the interest rate of same type of deposits placed by other members of SPIC Group with SPIC Financial.</p> |

In addition, subject to the above, the applicable interest rate for the amount of the Group's deposit in current account(s) that exceeds RMB100,000, will be 20 basis points higher than, and adjusted according to, the benchmark interest rate for agreements deposits (協定存款基準利率) as published by the PBOC from time to time.

We have reviewed the terms of the Financial Services Framework Agreement and compared to that of the Previous Framework Agreement and its Supplemental Agreement. From our review and as confirmed by the Management, the principal terms of the Financial Services Framework Agreement are generally in line with those in the Previous Framework Agreement and its Supplemental Agreement.

In order to ensure that the interest rates of the deposits placed by the Group with SPIC Financial are on normal commercial terms and no less favorable to the Group, the Company will (i) assign designated persons to monitor interest rates for deposits and loans and service fees for other financial services published on the official websites of PBOC and other major commercial banks in the PRC (including but not limited to China Construction Bank Corporation, Industrial and Commercial Bank of China Limited, Bank of China Limited, Bank of Communications Co., Ltd. or China Merchants Bank Co., Ltd.) (together the "**Major Commercial Banks**") for each transaction with SPIC Financial, and (ii) liaise with the Major Commercial Banks in the PRC. The customer service managers of such banks will provide written quotes for deposits, loans and other financial services regularly as needed to the finance department of the Company through email. Furthermore, price determination of deposits interest rate offered by the SPIC Financial will be under strict supervision and the Company will enforce relevant internal approval procedures.



We have obtained and reviewed 11 sample deposit agreements entered into between the Group and SPIC Financial during the period from June 2022 to March 2025 (the “**Sample Deposits**”). From our review, the deposit interest rates offered by the SPIC Financial were not lower than those quoted by the PBOC and other Major Commercial Banks for the same type of deposit.

Furthermore, there is a set-off clause where if any member of the Group cannot recover the deposits placed with SPIC Financial as a result of SPIC Financial misappropriated the deposits of the Group or used such deposits in breach of the Framework Agreement, the Group has the right to set off the deposit amounts due to the Group from SPIC Financial against any amounts of loan outstanding owing by the Group to SPIC Financial. As set out in the letter from the Board, the historical highest outstanding loan balance during the term of the Previous Framework Agreement was approximately RMB8.462 billion. The set-off clause serves as a risk control measure and provides additional protection to the Company in respect of the deposits placed with SPIC Financials.

Based on the above, in particular that the (i) interest rates offered and fees charged by SPIC Financial to the Group were no less favourable than those quoted by the PBOC and other Major Commercial Banks in the PRC; and (ii) the Deposit Services contemplated under the Financial Services Framework Agreement are conducted on a non-exclusive basis, we are of the view that the principal terms of the Deposit Services contemplated under the Financial Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

## 5. Proposed Annual Cap for the Deposit Services

The table below sets out the historical highest daily deposit balance (including accrued interests) of the Group placed with SPIC Financial under the Previous Framework Agreement and its Supplemental Agreement in respect of the Deposit Services:

|                                                                | For the period<br>from<br>7 June<br>2022 to<br>31 December<br>2022<br>(RMB'billion) | For the year<br>ended<br>31 December<br>2023<br>(RMB'billion) | For the year<br>ended<br>31 December<br>2024<br>(RMB'billion) | For the period<br>from<br>1 January<br>2025 to<br>12 May<br>2025<br>(RMB'billion) |
|----------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Historical transaction amounts                                 |                                                                                     |                                                               |                                                               |                                                                                   |
| Highest daily deposit balance<br>(including accrued interests) | 5.471                                                                               | 8.975                                                         | 8.997                                                         | 7.450                                                                             |
| Existing annual cap                                            | 5.5                                                                                 | 9.0                                                           | 9.0                                                           | 9.0 <i>(Note)</i>                                                                 |
| Utilisation rate                                               | 99.47%                                                                              | 99.72%                                                        | 99.97%                                                        | 82.78%                                                                            |

*Note:* Existing annual cap was for the period from 1 January 2025 to 6 June 2025.



Pursuant to the Financial Services Framework Agreement, the proposed Annual Cap will not exceed RMB12 billion for each of (i) the period from 7 June 2025 to 31 December 2025, (ii) the two years ended 31 December 2026 and 2027, and (iii) for the period from 1 January 2028 to 6 June 2028.

As disclosed in the letter from the Board of the Circular, in determining the proposed maximum daily deposit balance (including accrued interests) in the Group's settlement account with SPIC Financial during the term of the Framework Agreement, the Board has considered the following factors:

- (1) The aforementioned historical highest daily balances of deposits of the Group as stated in the section headed "HISTORICAL TRANSACTION AMOUNTS" of the letter from the Board.
- (2) The expanded scale and operations of the existing businesses of the Group taking into account of the various acquisitions completed in the past years.
- (3) The expected net increase in cash generated from operating activities, which is likely to lead to an increase in the Group's demand for Deposit Services from SPIC Financial on the basis that the interest rates offered by SPIC Financial to the Group are no less favorable than those offered by the other major commercial banks in the PRC according to the pricing principles of the Framework Agreement. The Group's net cash generated from operating activities for the past three years ended 31 December 2022, 2023 and 2024 amounted to approximately RMB5.72 billion, RMB9.90 billion and RMB10.62 billion respectively, representing a compounded annual growth rate ("CAGR") of approximately 36.2%.

The existing annual cap of the Deposit Services for the past three years represents approximately 96.2%, 90.9% and 84.75% of the net cash generated from operating activities of the Group as at 31 December 2022, 2023 and 2024 respectively (the "**Cap Ratio**"). By applying a growth rate of 5% to the Group's net cash generated from operating activities in 2024, in reference to China's gross domestic product for that year and utilizing the Cap Ratio of 84.75% in 2024, it is anticipated that the demand for Deposit Services of the expanded scale and operations of the existing businesses of the Group will increase by approximately RMB0.5 billion.

- (4) The anticipated completion of (i) the acquisition of certain clean energy assets currently underway by Wu Ling Power under the Proposed Asset Pre-Restructuring in the next twelve months; and (ii) the acquisition of Yuanda Environmental, a company listed on the Shanghai Stock Exchange, under the Proposed Asset Restructuring which is subject to the Independent Shareholders' approval in a general meeting soon to be scheduled. Both acquisitions are expected to increase the Group's demand for financial services in the coming three years.



For the clean energy companies to be acquired under the Proposed Asset Pre-Restructuring, the expected amount of Deposit Services with SPIC Financial is approximately RMB0.5 billion based on their historical deposit data. For Yuanda Environmental, the historical highest daily deposit amounts with SPIC Financial were approximately RMB0.576 billion, RMB0.698 billion, and RMB0.829 billion for the past three years ended 31 December 2022, 2023, and 2024, respectively. This represents CAGR of approximately 19.97%. By applying this CAGR, the expected additional Deposit Services that Yuanda Environmental will be placed with SPIC Financial is approximately RMB1.0 billion.

- (5) The possibility of acquisitions (otherwise than the Proposed Asset Restructuring) and/or formation of new joint ventures that are expected to increase the Group's demand for financial services in the coming three years.
- (6) The number of expected power plants/stations or projects that will commence commercial productions and the possible future projects (especially the rapidly increasing numbers of clean and low carbon energy projects in response to the national dual-carbon targets of "30 • 60 Carbon Emission Peak and Carbon Neutrality" and assuming each of projects will be operated by a subsidiary of the Group) in the coming three years.
- (7) The operating cash flow and financial needs of the Group in respect of its future business expansion through organic growth across various business segments, particularly in emerging industries such as energy storage, green power transportation and integrated intelligent energy projects.

The Group's power generation business is capital-intensive in nature and further business development and expansion of the Group will call for additional capital resources. The historical consolidated installed capacity (MW) of the Group as of 31 December for the past three years of 2022, 2023, and 2024 were 31,599.2MW, 45,018.8MW, and 49,390.9MW, respectively, representing a CAGR of approximately 25%. Taking into account the current pace of development and plans for expansion, the Company may need additional financing to meet both of its capital and operating requirements.

- (8) To support the rapid growth of the Group as mentioned in points (5), (6) and (7) above, the Company expects a buffer of approximately 10% increase to the historical annual cap of RMB9 billion, equivalent to approximately RMB1 billion, shall be reserved for the potential issuance of financial instruments such as short-term commercial papers, notes, debentures, bonds or other financing instruments from time to time which will likely to increase the Group's daily maximum deposit balance at SPIC Financial.
- (9) The maintenance of sufficient amount of funds deposited with SPIC Financial corresponding to the growing scale of the Group worked as a funding pool platform which can be withdrawn anytime and therefore facilitates to meet the financial requirements of the subsidiaries of the Group arising from different timing.



In assessing the fairness and reasonableness of the proposed Annual Cap, we have discussed with the Management and carried out independent analyses and noted that the proposed Annual Cap was determined principally based on the following:

- (i) the utilisation rates of the existing annual caps amounting to approximately 99.47%, 99.72%, 99.97% and 82.78% for the for the period from 7 June 2022 to 31 December 2022, for the year ended 31 December 2023 and 2024, and for the period from 1 January 2025 to 12 May 2025, respectively;
- (ii) the highest daily deposit balance (including accrued interests) of the Group during the term of the Previous Framework Agreement of approximately RMB8.997 billion, representing approximately 99.97% of the existing annual cap of RMB9.0 billion, and the remaining funds available for deposit of the Group of approximately RMB0.358 billion;
- (iii) the expected growth rate of 10% in the Group's available funds for deposits. We note from the 2023 Annual Report and the 2024 Annual Report that, (a) the Group's cash and cash equivalent amounted to approximately RMB4.23 billion, RMB5.74 billion and RMB6.07 billion as at 31 December 2022, 2023 and 2024 respectively, representing a CAGR of approximately 19.85%; and (b) profit attributable to the equity holders of the Group amounted to approximately RMB2.65 billion, RMB3.08 billion and RMB3.86 billion for each of the year ended 31 December 2022, 2023 and 2024 respectively, representing a CAGR of approximately 20.76%. Taking into account the historical growth rate in the Group's cash and cash equivalent and profit of approximately 20%, we note that the Company has taken a prudent approach in arriving at the expected increase for funds available for deposit after considering potential funding needs and working capital requirements of the Group. As such, the expected growth rate of 10% used in formulating the proposed Annual Cap is justified;
- (iv) the anticipated completion of the Proposed Asset Restructuring, in which Yuanda Environmental, a company listed on the Shanghai Stock Exchange and controlled by SPIC, will become a subsidiary of the Company. The Company expected that the deposit amounts by Yuanda Environmental would reach RMB1 billion in the coming years. As advised by the Management, Yuanda Environmental has been placing deposits with SPIC Financial prior to the Proposed Asset Restructuring. We have obtained the historical highest daily deposits amounts of Yuanda Environmental with SPIC Financial in the past three years and noted that the highest daily deposit balance (including accrued interests) of Yuanda Environmental with SPIC Financial was approximately RMB0.576 billion, RMB0.698 billion and RMB0.829 billion for the three years ended 31 December 2022, 2023 and 2024 respectively, representing a CAGR of approximately 19.97%. Taking into account the historical amount and growth rate of the deposits placed by Yuanda Environmental with SPIC Financials, the anticipated deposit amounts of RMB1 billion by Yuanda Environmental is justified; and



- (v) the anticipated completion of the acquisition of certain clean energy assets by Wu Ling Power under the Proposed Asset Pre-Restructuring in the next twelve months (the “**Wu Ling Acquired Assets**”), which will be injected into Yuanda Environmental under the Proposed Asset Restructuring. As advised by the Management, the expected deposit amount from such companies is approximately RMB0.5 billion, which is based on their historical deposit amount. We have obtained and reviewed the historical deposit amount of the Wu Ling Acquired Assets for the past three years and noted that the highest daily deposit balance (including accrued interests) was approximately RMB0.5 billion, which is in line with the projection.

Having considered above, and the fact that the proposed Annual Cap provide the Group an option, but not an obligation, for the Group to deposit its funds with SPIC Financial, providing flexibility to the Group when sourcing financial service providers with favorable interest rates, we are of the view that the proposed Annual Cap, which is the same during the three-year term of the Financial Services Framework Agreement, are fair and reasonable so far as the Independent Shareholders are concerned.

#### **6. Internal approval procedures for the price determination process relating to the Deposit Services**

As set out under the section headed “5. INTERNAL CONTROL POLICIES AND PROCEDURES” of the letter from the Board of the Circular, notwithstanding that the Company considers that the capital risk control measures under the Framework Agreement, as set out in the section headed “(3) Capital risk control measures” in the letter from the Board of the Circular, are adequate to manage any risks involved in depositing funds with SPIC Financial, the Group will review contracts and monitor the amount and interest rate of the deposits to ensure the fairness of the terms of the relevant transactions as compared to placing the relevant deposits with independent third parties other than SPIC Financial.

In practice, the Group shall undertake to adhere to the following internal control measures in dealing with the financial services provided by SPIC Financial to the Group:

- (i) The Company assigns designated persons to monitor interest rates for deposits and loans and service fees for other financial services published on the official websites of PBOC and other major commercial banks in the PRC (including but not limited to China Construction Bank Corporation, Industrial and Commercial Bank of China Limited, Bank of China Limited, Bank of Communications Co., Ltd. or China Merchants Bank Co., Ltd.) for each transaction with SPIC Financial.
- (ii) The Company liaises with the major commercial banks in the PRC. The customer service managers of such banks will provide written quotes for deposits, loans and other financial services regularly as needed to the finance department of the Company through email.



If the terms obtained through the two methods above are more favourable to the Group than those provided by SPIC Financial, the Company's finance department will report this fact to the chief accountant of the Company. Such information will be used by the Group for re-negotiating the price with SPIC Financial. The Group can also exercise the unilateral right to terminate any services to be provided by SPIC Financial under the Framework Agreement if the fees charged by any other commercial banks in the PRC for such services are more favourable to the Group.

We have discussed with the designated personal in monitoring the interests rates for deposits and loans and service fees for other financial services and noted that such persons will perform a desktop search for each transaction with SPIC Financial on relevant rates published on the official websites of PBOC and other major commercial banks in the PRC. Taking into account the above, as well as our review of the Sample Deposits, in which the deposit interest rates offered by the SPIC Financial were not lower than those quoted by the PBOC and other Major Commercial Banks for the same type of deposit, we are of the view that appropriate measures are in place to ensure the price determination process in relation to the Deposit Services is properly carried out by the Group.

In addition, pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Deposit Services contemplated under the Financial Services Framework Agreement are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Deposit Services every year and confirm in the annual report that the transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or better; and
  - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company's auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Deposit Services:
  - (i) have not been approved by the Board;
  - (ii) were not, in all material respects, in accordance with the pricing policies of the Group;
  - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing them; and
  - (iv) have exceeded the relevant annual caps;



- (c) the Company must allow, and ensure that the counterparties to the Deposit Services allow, the Company's auditors sufficient access to their records for the purpose of the reporting on such transactions; and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required. The Stock Exchange may require the Company to re-comply with the announcement and Shareholders' approval requirements and may impose additional conditions.

In light of the reporting requirements attached to the Deposit Services, in particular, (i) the comparison of the interest rate offered by SPIC Financial to those announced by the PBOC and Major Commercial Banks; (ii) the restriction of the transaction value by way of annual caps; and (iii) the ongoing review by the independent non-executive Directors and auditors of the Company of the Deposit Services and the proposed Annual Cap not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Deposit Services pursuant to the Financial Services Framework Agreement and assist in safeguarding the interests of the Company and the Independent Shareholders as a whole.

#### **OPINION AND RECOMMENDATIONS**

Having taken into account the above principal factors and reasons, we consider that the entering into of Deposit Services under the Financial Services Framework Agreement, including the proposed Annual Cap, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions in relation to the Deposit Services and the proposed Annual Cap to be proposed at the GM.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**

  
**Calvin Leung**  
Director

*Mr. Calvin Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 20 years of experience in the corporate finance industry.*