
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in **China Boqi Environmental (Holding) Co., Ltd.**, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



China Boqi Environmental (Holding) Co., Ltd.

中國博奇環保(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2377)

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO NO. 1-2 YANGXI FACILITIES OPERATION
SERVICE UNDER NO. 1-2 YANGXI FACILITIES ASSET TRANSFER OF
DESULFURIZATION AND DENITRIFICATION PROJECTS AGREEMENT;
AND**

**(II) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
(A) 2023 SUPPLEMENTAL AGREEMENT;
(B) SUPPLEMENTAL AGREEMENT TO NO. 5-6 YANGXI FACILITIES
MAINTENANCE SERVICE AGREEMENT;
AND**

**(C) NO. 1-6 YANGXI FACILITIES COAL CONVEYING SYSTEM AND
DOCK SYSTEM MAINTENANCE SERVICE AGREEMENT**

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



A letter from the Board is set out on pages 7 to 55 of this circular.

A letter from the Independent Board Committee is set out on pages 56 to 57 of this circular.

A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the No. 1-2 Yangxi Facilities Operation Service, the 2023 Supplemental Agreement, the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, the Proposed Annual Caps and the transactions contemplated thereunder is set out on pages 58 to 102 of this circular.

A notice convening the EGM to be held at the conference room of the Company at Floor 2, Guoben Culture Building, No. Jia 8, Xinglongzhuang, Chaoyang District, Beijing, the PRC on Friday, 29 December 2023 at 10:30 a.m., is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than 10:30 a.m. on 27 December 2023. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

12 December 2023

CONTENTS

| | <i>Page</i> |
|--|-------------|
| Definitions | 1 |
| Letter from the Board | 7 |
| Letter from the Independent Board Committee | 56 |
| Letter from Gram Capital | 58 |
| Appendix I – General Information | 103 |
| Appendix II – Asset Valuation Report | 109 |
| Notice of EGM | EGM-1 |

DEFINITIONS

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

| | |
|-------------------------------|---|
| “2020 Supplemental Agreement” | the agreement entered into among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric on 30 November 2020, pursuant to which the parties agreed to amend and supplement certain terms in relation to the pricing terms for the provision of O&M services and the Ancillary Charges in accordance with the market-based pricing mechanism, further details of which are set out in the Company’s announcement dated 30 November 2020 and circular dated 8 December 2020 |
| “2023 Supplemental Agreement” | the agreement entered into among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric on 27 October 2023, pursuant to which the parties agreed to amend and supplement certain terms contemplated under the Yangxi Agreements |
| “Acquisition” | the acquisition of No. 1-2 Yangxi Facilities (except for land) by Beijing Boqi from Yangxi Electric pursuant to No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement for the consideration of approximately RMB154.26 million (excluding tax, being RMB174.31 million with tax included) |
| “associate(s)” | shall have the meaning as ascribed to it under the Listing Rules |
| “Beijing Boqi” | Beijing Boqi Electric Power SCI-TECH Co., Ltd.* (北京博奇電力科技有限公司), a wholly-owned subsidiary of the Company |
| “Beijing Boqi Yangxi Branch” | Yangxi Branch of Beijing Boqi Electric Power SCI-TECH Co., Ltd.* (北京博奇電力科技有限公司陽西分公司), a branch of Beijing Boqi |
| “Board” | the board of Directors |
| “Business Day” | any day (excluding Saturday and Sunday) on which banks in PRC generally are open for business |

DEFINITIONS

| | |
|---|---|
| “CCTs” | No. 1-2 Yangxi Facilities Operation Service, No. 3-4 Yangxi Facilities O&M Operation, No. 5-6 Yangxi Facilities Maintenance Service and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance |
| “Company” | China Boqi Environmental (Holding) Co., Ltd (中國博奇環保(控股)有限公司), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange |
| “connected person(s)” | has the same meaning ascribed thereto under the Listing Rules |
| “continuing connected transaction(s)” | has the same meaning ascribed thereto under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the extraordinary general meeting to be held by the Company for the Independent Shareholders to consider and, if thought fit, approve (i) the 1-2 Yangxi Facilities Agreement and transactions contemplated thereunder; (ii) the 2023 Supplemental Agreement and transactions contemplated thereunder; (iii) the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and transactions contemplated thereunder; (iv) the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder; and (v) the Proposed Annual Caps |
| “Gram Capital” or “Independent Financial Adviser” | Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser to (A) advise the Independent Board Committee and the Independent Shareholders in respect of the transactions (including the Proposed Annual Caps) contemplated under No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement; and (B) provide advice under Rule 14A.52 of the Listing Rules |

DEFINITIONS

| | |
|-------------------------------|--|
| “Group” | the Company and its subsidiaries |
| “Guangdong Huaxia Electric” | Guangdong Huaxia Electric Development Co., Ltd.* (廣東華廈電力發展有限公司), a limited liability company established in the PRC on 11 November 2003, a company owned and controlled by the brother of Mr. Zhu |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | an independent committee of the Board comprising all the independent non-executive Directors, namely Dr. Xie Guozhong, Mr. Lu Zhifang, Prof. Yu Wayne W. and Ms. Zhang Fan, which has been formed by the Board to advise the Independent Shareholders in respect of the transactions (including the Proposed Annual Caps) contemplated under No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement |
| “Independent Shareholders” | Shareholders other than Mr. Zhu and his associates and those who has a material interest in the transactions under No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement or are otherwise required to abstain from voting on the resolutions at the EGM |
| “kWh” | kilowatt hours |
| “Latest Practicable Date” | 11 December 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time |

DEFINITIONS

| | |
|--|--|
| “Main Board” | the Main Board of the Stock Exchange |
| “Mr. Zhu” | 朱偉航 (ZHU Weihang), a non-executive Director and substantial shareholder |
| “No. 1-2 Yangxi Facilities” | No. 1-2 desulfurization and denitrification facilities owned by Yangxi Electric immediately prior to the completion of the Acquisition |
| “No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement” | the agreement entered into among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric on 27 October 2023 in relation to, among others, the Acquisition and No. 1-2 Yangxi Facilities Operation Service |
| “No. 1-2 Yangxi Facilities Operation Service” | the operation service in relation to desulfurization and denitrification by utilising No. 1-2 Yangxi Facilities in accordance with No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement upon completion of the Acquisition |
| “No. 1-4 Yangxi Facilities” | No. 1-2 Yangxi Facilities and No. 3-4 Yangxi Facilities |
| “No. 1-6 Yangxi Facilities” | No. 1-4 supercritical coal-fired facilities and No. 5-6 ultrasupercritical coal-fired facilities owned by Yangxi Electric |
| “No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance” | maintenance of coal conveying system and dock system of No. 1-6 Yangxi Facilities in accordance with the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement |
| “No. 3-4 Yangxi Facilities” | No. 3-4 desulfurization and denitrification facilities owned by Yangxi Electric |
| “No. 3-4 Yangxi Facilities O&M Operation” | the O&M operation of No. 3-4 Yangxi Facilities in accordance with Yangxi Agreements as further amended and supplemented by the 2023 Supplemental Agreement |
| “No. 5-6 Yangxi Facilities” | No. 5-6 desulfurization, denitrification and zero discharge of wastewater facilities owned by Yangxi Electric |

DEFINITIONS

| | |
|--|--|
| “No. 5-6 Yangxi Facilities Maintenance Service” | maintenance service in accordance with No. 5-6 Yangxi Facilities Maintenance Service Agreement |
| “No. 5-6 Yangxi Facilities Maintenance Service Agreement” | the maintenance service agreement dated 25 January 2022 entered into between Beijing Boqi and Yangxi Electric in relation to the maintenance service in respect of No. 5-6 Yangxi Facilities to be provided by Beijing Boqi, further details of which are set out in the Company’s announcement dated 25 January 2022, and as supplemented by No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement |
| “No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement” | the supplemental agreement to be entered into between Beijing Boqi and Yangxi Electric to supplement the No. 5-6 Yangxi Facilities Maintenance Service Agreement |
| “O&M” | operation and maintenance |
| “PPI” | Producer price index |
| “PRC” | the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan) |
| “Proposed Annual Caps” | the aggregate annual caps for the continuing connected transactions under (i) No. 1-2 Yangxi Facilities Operation Service; (ii) the 2023 Supplemental Agreement; (iii) No. 5-6 Yangxi Facilities Maintenance Service Agreement; and (iv) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, for the three years ending 31 December 2025 |
| “Prospectus” | the prospectus of the Company dated 28 February 2018 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Shareholder(s)” | holders of the Share(s) |
| “Shares” | ordinary shares of the Company |
| “Stock Exchange” | the Stock Exchange of Hong Kong Limited |

DEFINITIONS

| | |
|---------------------------|---|
| “substantial Shareholder” | shall have the meaning as ascribed to it under the Listing Rules |
| “Yangxi Agreements” | collectively, (i) the management service agreement entered into by Beijing Boqi and Guangdong Huaxia Electric and Yangxi Electric on 31 December 2016; (ii) the service pricing agreement entered into by Beijing Boqi and Guangdong Huaxia Electric and Yangxi Electric on 1 January 2017; (iii) the supplemental management service agreement entered into by Beijing Boqi and Guangdong Huaxia Electric and Yangxi Electric on 28 August 2017; (iv) the supplemental agreements entered into by Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric on 8 March 2018 and 20 July 2018; and (v) the 2020 Supplemental Agreement, pursuant to which Beijing Boqi shall provide O&M services in respect of No. 1-2 Yangxi Facilities and No. 3-4 Yangxi Facilities |
| “Yangxi Electric” | Yangxi Haibin Electric Power Development Co., Ltd (陽西海濱電力發展有限公司), a limited liability company established in the PRC on 5 February 2004, a wholly-owned subsidiary of Guangdong Huaxia Electric |
| “Yangxi Facilities” | No. 1-2 Yangxi Facilities, No. 3-4 Yangxi Facilities and No. 5-6 Yangxi Facilities |
| “%” | percentage |

* *For identification purposes only*

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Any discrepancy between totals and sums of individual amounts in this circular are due to rounding. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

LETTER FROM THE BOARD



China Boqi Environmental (Holding) Co., Ltd.
中國博奇環保(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2377)

Executive Directors:

Mr. Zeng Zhijun (*Chairman*)
Mr. Liu Genyu
Ms. Qian Xiaoning

Non-executive Directors:

Mr. Cheng Liquan Richard
Mr. Zheng Tony Tuo
Mr. Zhu Weihang
Mr. Chen Xue

Independent Non-executive Director:

Dr. Xie Guozhong
Mr. Lu Zhifan
Prof. Yu Wayne W.
Ms. Zhang Fan

Registered office:

PO Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

*Principal place of business
in Hong Kong:*

40/F, Dah Sing Financial Centre
248 Queen's Road East
Wanchai
Hong Kong

Headquarters in the PRC:

2/F, Guoben Culture Building
No. Jia 8, Xinglongzhuang
Chaoyang District
Beijing
the PRC

12 December 2023

To the Shareholders

Dear Sir or Madam,

- (I) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO NO. 1-2 YANGXI FACILITIES OPERATION
SERVICE UNDER NO. 1-2 YANGXI FACILITIES ASSET TRANSFER OF
DESULFURIZATION AND DENITRIFICATION PROJECTS AGREEMENT;
AND
(II) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
(A) 2023 SUPPLEMENTAL AGREEMENT;
(B) SUPPLEMENTAL AGREEMENT TO NO. 5-6 YANGXI FACILITIES
MAINTENANCE SERVICE AGREEMENT;
AND
(C) NO. 1-6 YANGXI FACILITIES COAL CONVEYING SYSTEM AND
DOCK SYSTEM MAINTENANCE SERVICE AGREEMENT**

LETTER FROM THE BOARD

I. INTRODUCTION

Reference is made to the announcement of the Company dated 27 October 2023 in relation to, among others, (i) No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement; (ii) the 2023 Supplemental Agreement; (iii) No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement; (iv) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement; and (v) the Proposed Annual Caps. Each of the aforementioned agreements is not inter-conditional upon each other. If any aforementioned agreement does not become effective for any reason, other agreements may still proceed to become effective.

The purpose of this circular is to provide you with, among other things, (i) further details of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder (including the Proposed Annual Caps); (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter from Gram Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

II. NO. 1-2 YANGXI FACILITIES ASSET TRANSFER OF DESULFURIZATION AND DENITRIFICATION PROJECTS AGREEMENT

On 27 October 2023, Beijing Boqi entered into No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement with Guangdong Huaxia Electric and Yangxi Electric. Major terms of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement are set out below:

| | |
|-----------------|---|
| Date: | 27 October 2023 |
| Parties: | Beijing Boqi (as purchaser and operation service provider) Guangdong Huaxia Electric (as site owner) Yangxi Electric (as site owner and vendor) |
| Subject matter: | (i) Beijing Boqi shall acquire from Yangxi Electric No. 1-2 Yangxi Facilities (except for land) (ii) Upon completion of the Acquisition (i.e., as set out in sub-paragraph (i) above), the O&M services in relation to No. 1-2 Yangxi Facilities provided by Beijing Boqi under the Yangxi Agreements shall be terminated and Beijing Boqi shall be responsible for the operation, maintenance and management of the acquired assets |

LETTER FROM THE BOARD

Effect/conditions precedent: No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement shall become established after signing and sealing among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric, which has been fulfilled as of the Latest Practicable Date, and become effective on the day of approval by the Independent Shareholders at the EGM, which has not been fulfilled as of the Latest Practicable Date.

None of the aforesaid conditions is waivable.

(1) Acquisition of No. 1-2 Yangxi Facilities

Consideration and basis for the Acquisition: Approximately RMB154.26 million (excluding tax, being RMB174.31 million with tax included), which was determined by the parties after arm's length negotiation with reference to the asset value of No. 1-2 Yangxi Facilities of approximately RMB159.03 million (excluding tax) as at 30 September 2023 appraised by an independent valuer.

Valuation approach and assumptions

Approach

Asia-Pacific Consulting and Appraisal Limited (the “**Valuer**”), which is an independent valuer registered in Hong Kong, undertook a valuation exercise on the market value of desulfurization and denitrification facilities for No. 1-2 Yangxi Facilities as at 30 September 2023.

The valuation report (the “**Valuation Report**”) was prepared by the Valuer by adopting cost approach, which considers the cost to reproduce or replace in new condition the assets in accordance with current market prices for similar assets or by making reference to the purchase price of similar assets, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic cause. The cost approach was adopted as the No. 1-2 Yangxi Facilities are assets without active secondary market and relevant information on replacement or reproduction costs, current conditions, utility, age, wear and tear, past and present maintenance policy, rebuilding history and current utilisation are available for the Valuer to concluded the valuation of No. 1-2 Yangxi Facilities. As confirmed by the Valuer, the cost approach is one of the commonly adopted approaches for valuation of assets and is also consistent with normal market practice.

It is the Valuer's opinion that RMB159,030,000 fairly represents the estimated market value (tax excluded) of the No. 1-2 Yangxi Facilities as at 30 September 2023.

LETTER FROM THE BOARD

Assumptions

Valuation assumptions:

- The seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests;
- All relevant legal approvals and business certificates or licenses to operate the business in which Yangxi Electric operates or intends to operate have been or would be officially obtained and renewable upon expiry;
- There will be no major change in the political, legal, economic and social environment in which Yangxi Electric operates or intends to operate;
- Interest rates and exchange rates in the localities for the operation of Yangxi Electric will not differ materially from those presently prevailing;
- It is assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- The financial and operational information provided by Yangxi Electric accurate and reliable;
- There are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value;
- The current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of Yangxi Electric through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed;
- It is assumed the continuation of prudent management of Yangxi Electric over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued;
- Yangxi Electric will successfully carry out all necessary activities for the development of its business as a going concern;
- Key management, competent personnel and technical staff to support the ongoing operations of Yangxi Electric;
- The competitive advantages and disadvantages of Yangxi Electric do not change significantly during the period under consideration; and
- For the buildings of the property which have not been provided with Real Estate Certificate, the Valuer has valued the properties on the assumption that the properties can be freely transferred or disposed without payment of any further land premium, construction cost, penalty or transfer fees.

The Valuer stated that they have made no investigation and assume no responsibility for titles or liabilities against the No. 1-2 Yangxi Facilities. In the course of their valuation, land, leasehold improvements in respect of the leasehold property, spare parts, inventories, supplies, materials, on-hand company records or any current and intangible assets are excluded.

LETTER FROM THE BOARD

The Board's view on the fairness and reasonableness of the valuation approach and assumptions

The Directors have reviewed valuation method, key inputs, assumptions and parameters adopted and the valuation outcome for the valuation of No. 1-2 Yangxi Facilities as stated in the Valuation Report. Based on the review of the Valuation Report and having considered that (i) the valuation is in compliance with the International Valuation Standards issued by the International Valuation Standards Council and the RICS Valuation-Global Standards issued by the Royal Institution of Chartered Surveyors, a global professional body for surveyors; (ii) the assumptions adopted by the Valuer in the Valuation Report are reasonable and it is not uncommon in practice for the purpose of assessing the value of the No. 1-2 Yangxi Facilities based on cost approach; and (iii) the Board has not identified any major factors which would cause them to doubt the fairness and reasonableness of the valuation methodology (i.e. the cost approach) or the assumptions adopted by the Valuer, the Directors are of the view that the valuation method, key inputs, assumptions and parameters adopted and the valuation outcome in the Valuation Report are fair and reasonable and on the normal commercial terms and the valuation of No. 1-2 Yangxi Facilities as at 30 September 2023 has been made after due and careful enquiry.

The Board's assessment on the fairness and reasonableness of the consideration of the Acquisition

The Board has discussed with the responsible persons of the Valuer and cautiously reviewed the relevant basis, assumptions and methodology of the Valuation. The Board is of the view that the appraisal value is a reasonable estimate of the value of the No. 1-2 Yangxi Facilities.

Furthermore, the Board also considered the stable operating return with relatively small capital contribution and low acquisition risks brought by the Acquisition, leading to more potential in high investment returns compared to other similar projects.

As such, the Directors are of the view that the consideration of the Acquisition, which represents a slight discount to the appraisal value, is fair and reasonable.

LETTER FROM THE BOARD

Payment terms for the Acquisition:

Beijing Boqi shall pay the consideration in respect of the Acquisition in the following manner:

- (i) 50% of the consideration or approximately RMB87.15 million (including tax) will be settled by cash within 15 Business Days after the date of the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement; and
- (ii) the remaining 50% of the consideration or approximately RMB87.15 million (including tax) will be settled within 15 Business Days after the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement becomes effective.

In the event that the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement cannot become effective, Yangxi Electric shall refund all previously settled consideration within 15 Business Days after receiving the written notice from Beijing Boqi.

Completion for the Acquisition:

Completion shall take place when Yangxi Electric receives the entire consideration and completes the asset delivery procedures in accordance with No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement. Upon completion, Beijing Boqi shall own all the rights and interest (except for land) in No. 1-2 Yangxi Facilities.

LETTER FROM THE BOARD

Future disposal arrangement: If Beijing Boqi intends to dispose No. 1-2 Yangxi Facilities after completion of the Acquisition, it must obtain the written consent of Yangxi Electric.

The No. 1-2 Yangxi Facilities acquired by Beijing Boqi are an important component of Yangxi Electric's production and operation. Yangxi Electric has to ensure that its production and operation can meet national standards and relevant requirements based on the desulfurization and denitrification services provided by Beijing Boqi. Therefore, any disposal arrangement of No. 1-2 Yangxi Facilities by Beijing Boqi will have a significant impact on the normal production and operation of Yangxi Electric. It is therefore necessary to notify Yangxi Electric in writing in advance and obtain written consent from Yangxi Electric, which is also in line with the common industry practice and such consent requirement was also in place in other similar transactions of the Group.

Taking into account the aforesaid, the Directors are of the view that the above arrangement is fair and reasonable, on the normal commercial terms and in the interests of the Company and its shareholders.

LETTER FROM THE BOARD

(2) No. 1-2 Yangxi Facilities Operation Service

Term for No. 1-2 Yangxi
Facilities Operation Service:

No. 1-2 Yangxi Facilities Operation Service shall have a term until 31 December 2039.

In respect of the term of No. 1-2 Yangxi Facilities Operation Service Agreement to be longer than three years, the Directors considered the following factors:

- (i) the first commissioning time for the No. 1-2 Yangxi Facilities was September 2009 and December 2009 respectively. According to Code for Design of Fossil Fired Power Plant promulgated by Ministry of Housing and Urban-Rural Development of the PRC in 2011, the design life of the process system (工藝系統) for a thermal power plant should be 30 years. The term of No. 1-2 Yangxi Facilities Operation Service is therefore in line with the end of the design life of No. 1-2 Yangxi Facilities;
- (ii) as the provision of No. 1-2 Yangxi Facilities Operation Service are revenue nature of the Group and the Group expects to record gross profit from the No. 1-2 Yangxi Facilities Operation Service, it is in the benefit of the Group to secure No. 1-2 Yangxi Facilities Operation Service for as long as possible; and
- (iii) Beijing Boqi is also responsible for the operational charges used in the services provided as well as treatment of waste created during the provision of No. 1-2 Yangxi Facilities Operation Service.

In considering whether it is a normal business practice for agreements of similar nature with the No. 1-2 Yangxi Facilities Operation Service Agreement to have a term of such duration, the Group also entered into agreements with independent third parties regarding the provision of O&M services, which the Group's works for the No. 1-2 Yangxi Facilities Operation is similar to the Group's provision of O&M services, with duration of more than three years.

LETTER FROM THE BOARD

Taking into account of the above, the Directors are of the view that the term of No. 1-2 Yangxi Facilities Operation Service Agreement, which is longer than three years, is fair and reasonable, on the normal commercial terms and in the interest of the Company and its shareholders.

Scope of No. 1-2 Yangxi
Facilities Operation Service:

Beijing Boqi shall be responsible for provision of operation service in relation to desulfurization and denitrification to ensure that Yangxi Electric's production and operation can meet the national standards and relevant requirements, by utilising No. 1-2 Yangxi Facilities, scope of which shall include (among others):

- (i) determining the inlet parameter ranges of sulfur dioxide in the desulfurization system and nitrogen oxides in the denitrification system according to applicable laws, regulations and standards, project design conditions and current actual operating conditions;
- (ii) system operation, daily maintenance, overhaul service, and gypsum and desulfurization and denitrification waste treatment and other related work;
- (iii) coordinating with relevant government departments and be responsible for relevant costs;
- (iv) ensuring the safe and stable operation of No. 1-2 Yangxi Facilities and meeting the operation needs of the relevant power plant;
- (v) subject to compliance with the inlet parameter requirements, ensuring the relevant pollutant discharge indicators comply with the applicable laws, regulations and standards, and ensuring the total amount of pollutant discharge is not higher than the project indicators as issued by the relevant PRC government department; and
- (vi) subject to compliance with the inlet parameter requirements, carrying out relevant upgrades and technical transformation to meet the latest requirements of applicable laws, regulations and standards.

LETTER FROM THE BOARD

Service Fees:

The service fees in respect of No. 1-2 Yangxi Facilities Operation Service are calculated in the following manners:

(i) Desulfurization and denitrification subsidies

The service fees in respect of desulfurization and denitrification subsidies shall be calculated by multiplying on-grid electricity generation (kWh) to be generated by No. 1-2 Yangxi power generating units by RMB0.025 per kWh, being the rate as mutually agreed by the parties after considering the “benchmark desulfurization and denitrification subsidies”. Such rate shall be adjusted according to changes in “benchmark desulfurization and denitrification subsidies”. According to Determination of Desulfurization Price of Coal-Fired Generating Units and Operation of Desulfurization Facilities (燃煤發電機組脫硫電價及脫硫設施運行管理辦法) and the Notice on Further Diverting the Contradiction of Environmental Protection Electricity Prices (Development and Reform Price [2014] No. 1908 (關於進一步疏導環保電價矛盾的通知(發改價格[2014]1908號)), the currently applicable “benchmark desulfurization subsidies” is RMB0.015 per kWh (tax included) and the currently applicable “benchmark denitrification subsidies” is RMB0.01 per kWh (tax included).

The aforesaid rate of RMB0.025 per kWh has been determined after taking into account (i) the aforesaid “benchmark desulfurization and denitrification subsidies”; (ii) additional costs and expenses to be incurred after No. 1-2 Yangxi Facilities became our assets subsequent to the Acquisition; and (iii) the expected costs involving the installed capacity of the coal-fired power plant, the type of devices installed, and the flue gas parameters of the environmental protection device (flue gas volume, SO₂ content of the flue gas inlet, NO_x content of the inlet), limestone, spare parts, labor, which reflect the specific requirements of each project. As such, the Directors are of the view that the rate is fair and reasonable, on the normal commercial terms and in the interest of the Company and its shareholders.

LETTER FROM THE BOARD

In addition, the service fees in respect of desulfurization and denitrification subsidies shall be subject to a “floating” adjustment ranging from 10% premium to 10% discount (i.e. $\pm 10\%$) with reference to Yangxi Electric’s annual profits based on its audited annual financial statements in the following manner:

- (a) if Yangxi Electric records net profits for its No. 1-4 units based on its annual audit report, Beijing Boqi shall be entitled to the “floating” adjustment ranging from 10% premium to 10% discount based on the annual settlement in respect of desulfurization and denitrification subsidies; and
 - (b) if Yangxi Electric records net loss for its No. 1-4 units based on its annual audit report, Beijing Boqi shall be entitled to the “floating” adjustment in the form of discount only of up to 10% based on the annual settlement in respect of desulfurization and denitrification subsidies.
- (ii) “Ultra-low emission” operation service fees

The service fees in respect of “ultra-low emission” operation shall be equivalent to the actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi plus a premium of 10%, as well as plus value-added tax based on the invoice issued by Beijing Boqi.

LETTER FROM THE BOARD

The actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi comprises fixed cost and variable cost. Fixed cost shall include labor cost(including management cost), spare parts cost and auxiliary material cost which is adjusted according to the PPI of Guangdong Province the year before. The annual labour cost shall be RMB150,500 and the annual spare parts cost shall be RMB250,000. Variable cost shall include electricity charges and expenses in relation to limestone, liquid ammonia, gypsum and catalyst and is calculated by multiplying the consumption per unit of on-grid electricity generation by the applicable unit price based on the unified bidding and then further multiplied by actual on-grid electricity generation.

Payment obligation of service fees:

- (i) For desulfurization and denitrification subsidies, Yangxi Electric shall pay to Beijing Boqi the service fee in relation to the following month on a monthly basis and within 90 days from the first day of the following month;
- (ii) For “floating” service fees, Yangxi Electric settle with Beijing Boqi on an annual basis; and
- (iii) For “Ultra-low emission” operation service fees, Yangxi Electric shall pre-pay to Beijing Boqi the service fee in relation to the following quarter on a quarterly basis and within 90 days from the first day of the first month of a quarter, and settle based on the approved electricity generation for ultra-low emission on an annual basis, with refunds for excess and compensations for shortages.

Historical figures:

Since the Group and Yangxi Electric had not entered into similar transactions in respect of No. 1-2 Yangxi Facilities Operation Service in the past, no historical transaction figure is available.

LETTER FROM THE BOARD

| | |
|--|---|
| Ancillary charges: | Ancillary charges refer to relevant operation charges, which include water, electricity, vapor, gas, environmental protection penalty (including confiscated environmental electricity price), operation assessment and pollution tax and office and staff quarter charges and other relevant operational charges, which shall be calculated by multiplying the actual consumption by the applicable unit price stipulated in No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement. |
| Payment obligation of ancillary charges: | Beijing Boqi shall pay the ancillary charges to Yangxi Electric on a monthly basis and within 90 days from the first day of the following month. |
| Historical figures and annual caps: | Since the Group and Yangxi Electric had not entered into similar transactions in respect of No. 1-2 Yangxi Facilities Operation Service in the past, no historical transaction figure is available. |

III. 2023 SUPPLEMENTAL AGREEMENT

On 27 October 2023, after arm's length negotiation among the parties, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into the 2023 Supplemental Agreement, pursuant to which the parties agreed to amend and supplement certain terms contemplated under the Yangxi Agreements. Major terms of the 2023 Supplemental Agreement are set out below:

| | |
|-----------------|--|
| Date: | 27 October 2023 |
| Parties: | Beijing Boqi (as operation service provider) Guangdong Huaxia Electric (as site owner) Yangxi Electric (as site owner) |
| Subject matter: | To amend and supplement certain terms contemplated under the Yangxi Agreements |

LETTER FROM THE BOARD

Effect/conditions precedent: The 2023 Supplemental Agreement shall become established after signing and sealing among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric, which has been fulfilled as of the Latest Practicable Date, and become effective on the day of approval by the Independent Shareholders at the EGM, which has not been fulfilled as of the Latest Practicable Date.

None of the aforesaid conditions is waivable.

Revised term: Pursuant to the Yangxi Agreements, the term shall be from 1 January 2017 to 31 December 2025.

Pursuant to the 2023 Supplemental Agreement, the parties agreed (i) to terminate the O&M operation of No. 1-2 Yangxi Facilities from the completion date of the Acquisition; and (ii) to extend the No. 3-4 Yangxi Facilities O&M Operation to 31 December 2028.

In respect of the term of Yangxi Agreements (as supplemented by the 2023 Supplemental Agreement) to be longer than three years, the Directors considered the following factors:

- (i) as the general maintenance cycle for the Yangxi Facilities is every four to five years, it is necessary for the term of such operation and maintenance agreements to be exceeding three years as it will not be in the benefit of either party to enter into a term that is shorter than the general maintenance cycle;
- (ii) it is in the commercial benefit of power plants to enter into longer operation and maintenance agreements due to the technical requirements and emission standards imposed by the PRC government to ensure compliance and certainty in their operations and minimizing their operational risk;

LETTER FROM THE BOARD

- (iii) as the provision of O&M services are revenue nature of the Group and the Group expects to record gross profit from the transactions contemplated under the Yangxi Agreements, it is in the benefit of the Group to secure Yangxi Agreements for as long as possible; and
- (iv) Beijing Boqi is also responsible for the operational charges used in the services provided as well as treatment of waste created during the provision of O&M services.

As mentioned above, the Group also entered into agreements with independent third parties regarding the provision of O&M services, with duration of more than three years.

Taking into account of the above, the Directors are of the view that the term of the Yangxi Agreements (as supplemented by the 2023 Supplemental Agreement), which is longer than three years, is fair and reasonable, on the normal commercial terms and in the interest of the Company and its shareholders.

LETTER FROM THE BOARD

Revised service fees:

On the premise of the 2023 Supplemental Agreement becoming effective, the pricing terms will be adjusted retrospectively (without interest) from 1 January 2023, which include service fees for (i) No. 1-2 Yangxi Facilities from 1 January 2023 to the completion date of the Acquisition; and (ii) No. 3-4 Yangxi Facilities from 1 January 2023 to 31 December 2028, in the following manners:

(i) Desulfurization and denitrification subsidies

The service fees in respect of desulfurization and denitrification subsidies shall be calculated by multiplying on-grid electricity generation (kWh) to be generated by No. 1-4 Yangxi power generating units (as the case may be) by RMB0.02143 per kWh, being the fixed rate as mutually agreed by the parties after considering the “benchmark desulfurization and denitrification subsidies”.

The aforesaid rate of RMB0.02143 per kWh has been determined after taking into account (i) the aforesaid “benchmark desulfurization and denitrification subsidies”; and (ii) the expected costs involving the installed capacity of the coal-fired power plant, the type of devices installed, and the flue gas parameters of the environmental protection device (flue gas volume, SO₂ content of the flue gas inlet, NO_x content of the inlet), limestone, spare parts, labor, which reflect the specific requirements of each project. As such, the Directors are of the view that the rate is fair and reasonable, on the normal commercial terms and in the interest of the Company and its shareholders.

The service fees in respect of desulfurization and denitrification subsidies shall be subject to a “floating” adjustment ranging from 10% premium to 10% discount (i.e. ±10%) with reference to Yangxi Electric’s annual profits based on its audited annual financial statements in the following manner:

- (a) if Yangxi Electric records net profits for its No. 1-4 units based on its annual audit report, Beijing Boqi shall be entitled to the “floating” adjustment ranging from 10% premium to 10% discount based on the annual settlement in respect of desulfurization and denitrification subsidies; and

LETTER FROM THE BOARD

- (b) if Yangxi Electric records net loss for its No. 1-4 units based on its annual audit report, Beijing Boqi shall be entitled to the “floating” adjustment in the form of discount only of up to 10% based on the annual settlement in respect of desulfurization and denitrification subsidies.

For details of the pricing terms in respect of the desulfurization and denitrification subsidies under the Yangxi Agreements, please refer to the circular of the Company dated 8 December 2020. Under the 2023 Supplemental Agreement, the pricing terms of desulfurization and denitrification subsidies shall be adjusted with introduction of upper and lower floor of 10% and further adjustment mechanism for the floating adjustment.

- (ii) “Ultra-low emission” operation service fees

The service fees in respect of “ultra-low emission” operation shall be equivalent to the actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi plus a premium of 10%, as well as plus value-added tax based on the invoice issued by Beijing Boqi.

The actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi comprises fixed cost and variable cost. Fixed cost shall include labor cost (including management cost), spare parts cost, and auxiliary material cost and shall consider an increase which is adjusted according to the PPI of Guangdong Province the year before. The annual labour cost shall be RMB150,500 and the annual spare parts cost and auxiliary material cost shall be RMB250,000 for No. 3-4 Yangxi Facilities after completion of the Acquisition. Variable cost shall include electricity charges and expenses in relation to limestone, liquid ammonia, gypsum and catalyst and is calculated by multiplying the consumption per unit of on-grid electricity generation by the applicable unit price based on the unified bidding and then further multiplied by actual on-grid electricity generation.

LETTER FROM THE BOARD

The pricing terms of “ultra-low emission” operation service fees were yet to be confirmed under the Yangxi Agreements.

As confirmed by the Directors, in view of the recent recovery in the market conditions and the relevant favourable governmental policies, the Group managed to negotiate, on arm’s length basis, (i) a more risk-resistant pricing term for desulfurization and denitrification subsidies; and (ii) additional fees for “ultra-low emission” operation service, as set out above. The Group further managed to negotiate the aforesaid revisions to the pricing terms, which the Directors consider are favourable to the Group, to commence retrospectively from 1 January 2023, as it is expected that the revised pricing terms can increase the service fees payable to the Group in 2023.

The aforesaid revised pricing terms shall only take effect on the premise of the 2023 Supplemental Agreement becoming effective (which is still subject to the approval by the Independent Shareholders at the EGM). After consulting its PRC legal advisers, the Company considers that the revised pricing terms under the 2023 Supplemental Agreements are in compliance with the relevant PRC laws and regulations.

Revised payment obligation of service fees:

- (i) For desulfurization and denitrification subsidies, Yangxi Electric shall pay to Beijing Boqi the service fee in relation to the following month on a monthly basis and within 90 days from the first day of the following month;
- (ii) For “floating” service fees, Yangxi Electric settle with Beijing Boqi on an annual basis; and
- (iii) For “Ultra-low emission” operation service fees, Yangxi Electric shall pre-pay to Beijing Boqi the service fee in relation to the following quarter on a quarterly basis and within 90 days from the first day of the first month of a quarter, and settle based on the approved electricity generation for ultra-low emission on an annual basis, with refunds for excess and compensations for shortages.

LETTER FROM THE BOARD

Historical figures and annual caps:

The following table sets forth the transaction amounts and annual caps in relation to O&M service fees of No. 1-4 Yangxi Facilities under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric for the three years ended 31 December 2022:

| For the year ended 31 December | Transaction amounts <i>(RMB'million)</i> | Annual caps <i>(RMB'million)</i> |
|---------------------------------------|--|--|
| 2020 | 121.34 | 302.30 |
| 2021 | 184.44 | 189.31 |
| 2022 | 178.21 | 189.31 |

Save as disclosed above, all other terms of the Yangxi Agreements shall remain unchanged. As such, all the relevant transactions in respect of O&M service of No. 1-4 Yangxi Facilities had been conducted pursuant to the Yangxi Agreements between 1 January and 27 October 2023, i.e. the date of the 2023 Supplemental Agreement. Other than (i) extension of the term of the No. 3-4 Yangxi Facilities O&M Operation and termination of the O&M operation of No. 1-2 Yangxi Facilities from the completion date of the Acquisition; and (ii) revision of the pricing terms in relation to service fees under the 2023 Supplemental Agreement (details of which are disclosed above), the transactions contemplated under the 2023 Supplemental Agreement were the same as those conducted under the Yangxi Agreements, given all other terms of the Yangxi Agreements shall remain the same, and thus no new transactions would be contemplated under the 2023 Supplemental Agreement.

Ancillary charges under the Yangxi Agreements

Under the Yangxi Agreements, Beijing Boqi shall pay the ancillary charges to Yangxi Electric before the 10th day of each month, including water, electricity, vapor, gas, environmental protection penalty and pollution tax fees and other relevant operational charges. Terms in relation to ancillary charges were not revised by the 2023 Supplemental Agreement and thus, shall remain unchanged.

The following table sets forth the transaction amounts and annual caps in relation to ancillary charges of No. 1-4 Yangxi Facilities under the Yangxi Agreements with Guangdong Huaxia Electric and Yangxi Electric for the three years ended 31 December 2022:

| For the year ended 31 December | Transaction amounts <i>(RMB'million)</i> | Annual caps <i>(RMB'million)</i> |
|---------------------------------------|--|--|
| 2020 | 47.99 | 103.63 |
| 2021 | 59.82 | 65.27 |
| 2022 | 60.19 | 65.27 |

LETTER FROM THE BOARD

IV. NO. 5-6 YANGXI FACILITIES MAINTENANCE SERVICE SUPPLEMENTAL AGREEMENT

Beijing Boqi Yangxi Branch shall enter into the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement with Yangxi Electric to amend the total service fee upon the approval by the Independent Shareholders at the EGM. Major terms of the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement are summarised below:

| | |
|---------------------------------------|---|
| Parties: | Beijing Boqi Yangxi Branch Yangxi Electric |
| Subject matter: | <p>To revise the total service fee so as to cover (i) the projects of which the individual project price does not exceed RMB50,000; and (ii) the projects of which the individual project price exceeds RMB50,000 but less than RMB100,000.</p> <p>For projects of which the individual project price exceeds RMB100,000, Yangxi Electric will undergo separate tender process to seek service providers.</p> |
| Effect/condition precedent: | <p>No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement shall become established and effective after signing and sealing among Beijing Boqi Yangxi Branch and Yangxi Electric, which has not been fulfilled as of the Latest Practicable Date and is not waivable.</p> <p>As disclosed above, Beijing Boqi Yangxi Branch shall enter into the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement with Yangxi Electric upon the approval by the Independent Shareholders at the EGM.</p> |
| Revised service fee: | Subject to adjustment that may be made in accordance with the No. 5-6 Yangxi Facilities Maintenance Service Agreement, the total service fee is increased from RMB33,920,000 to RMB35,920,000. |
| Pricing basis of revised service fee: | To better meet on-site service and emergency needs, the revised service fee in respect of No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement is determined based on the expected service fee to be incurred from additional service fee coverage of projects with the individual project (such as additional on-site technology improvements, rectifications, emergency repairs and equipment abnormalities, etc.) price that exceeds RMB50,000 but less than RMB100,000. |

LETTER FROM THE BOARD

Historical figures and annual caps:

No similar transactions had been entered into prior to the No. 5-6 Yangxi Facilities Maintenance Service Agreement. The historical transaction amounts and annual caps under the No. 5-6 Yangxi Facilities Maintenance Service Agreement since the entering into the No. 5-6 Yangxi Facilities Maintenance Service Agreement and to 31 December 2022 and for the six months ended 30 June 2023 are set out below.

| Period | Transaction amounts (RMB'million) | Annual caps (RMB'million) |
|--|--|--------------------------------------|
| From 25 January 2022 ^{Note} to 31 December 2022 | 5.34 | 5.90 |
| For the six months ended 30 June 2023 | 2.94 | 5.90 |

Note: being the date of No. 5-6 Yangxi Facilities Maintenance Service Agreement

Save as disclosed above, all other terms of the No. 5-6 Yangxi Facilities Maintenance Service Agreement shall remain unchanged. For further details, please refer to the announcement of the Company dated 25 January 2022.

The term of the No. 5-6 Yangxi Facilities Maintenance Service Agreement is from 1 January 2022 to 31 August 2027. For further details, please refer to the announcement of the Company dated 25 January 2022. In respect of the term of the No. 5-6 Yangxi Facilities Maintenance Service Agreement to be longer than three years, the Directors considered the following factors:

- Yangxi Electric selected services provider for the transactions contemplated under the No. 5-6 Yangxi Facilities Maintenance Service Agreement by way of tendering procedures. According to the tendering document, which applied to all participants, the required duration of maintenance services and the template maintenance service agreement (being part of the tendering document) were approximately six years. Therefore, it would be unduly burdensome and would add unnecessary administration costs for entering into maintenance services agreements with duration of not more than three years as the duration of the maintenance services is approximately six years.

LETTER FROM THE BOARD

- It is commercially beneficial for power plants operators to enter into longer operation and maintenance agreements due to the technical requirements and emission standards imposed by the PRC government to ensure compliance and certainty in their operations and minimization of their operational risk.

As mentioned above, the Group also entered into agreements with independent third parties regarding the provision of O&M services, with duration of more than three years.

Taking into account of the above, the Directors are of the view that the term of No. 5-6 Yangxi Facilities Maintenance Service Agreement, which is longer than three years, are fair and reasonable, on the normal commercial terms and in the interest of the Company and its shareholders.

V. NO. 1-6 YANGXI FACILITIES COAL CONVEYING SYSTEM AND DOCK SYSTEM MAINTENANCE SERVICE AGREEMENT

Beijing Boqi Yangxi Branch shall enter into No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement with Yangxi Electric upon the approval by the Independent Shareholders at the EGM. Major terms of No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement are set out below:

Parties: Beijing Boqi Yangxi Branch (as contractor and service provider)
Yangxi Electric (as contract-issuing party)

Term: 50 months. From the date of No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement to 31 July 2027, comprising (i) first stage up to 31 May 2024; (ii) second stage from 1 June 2024 to 31 May 2025; and (iii) third stage from 1 June 2025 to 31 July 2027.

The above dates are based on preliminary plan and for reference only. The actual specific commencement time shall be based on the date approved or notified by Yangxi Electric, with a total term of 50 months, comprising (i) first stage of 12 months; (ii) second stage of 12 months; and (iii) the remaining term as the third stage.

LETTER FROM THE BOARD

In respect of the term of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Agreement to be longer than three years, the Directors considered the following factors:

- Yangxi Electric selected services provider for the transactions contemplated under the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance by way of tendering procedures. According to the tendering document, which applied to all participants, the required duration of maintenance services under the template maintenance service agreement (being part of the tendering document) were 50 months. Therefore, it would be unduly burdensome and would add unnecessary administration costs for entering into maintenance services agreements with duration of not more than three years as the duration of the maintenance services is approximately six years.
- It is commercially beneficial for power plants operators to enter into longer operation and maintenance agreements due to the technical requirements and emission standards imposed by the PRC government to ensure compliance and certainty in their operations and minimization of their operational risk.

As mentioned above, the Group also entered into agreements with independent third parties regarding the provision of O&M services, with duration of more than three years.

Taking into account of the above, the Directors are of the view that the term of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Agreement, which is longer than three years, is fair and reasonable, on the normal commercial terms and in the interest of the Company and its shareholders.

LETTER FROM THE BOARD

In the event that the standard of No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance fails to pass the assessment by Yangxi Electric in a particular stage, No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement shall be automatically terminated after completion of that stage without proceeding to the next stage.

Subject matter: Provision of operation and maintenance services of coal conveying system and dock system (including pipe gallery, coal containing wastewater treatment system, all equipment at the dock, excluding air conditioning, firefighting, and lifting equipment within the bid section) in respect of the No. 1-6 Yangxi Facilities by Beijing Boqi.

Effect/condition precedent: No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement shall become established and effective after signing and sealing among Beijing Boqi Yangxi Branch and Yangxi Electric, which has not been fulfilled as of the Latest Practicable Date and is not waivable.

As disclosed above, Beijing Boqi Yangxi Branch shall enter into No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement with Yangxi Electric upon the approval by the Independent Shareholders at the EGM.

Service fee: Subject to adjustment that may be made in accordance with the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, the total service fee is approximately RMB84.9 million, details of which are set out below:

| No. | Item | Unit price (RMB) | Amount | Total fee to be received during the entire term (RMB) |
|-----|--|---------------------------|-----------|--|
| 1. | Routine maintenance fee for No. 1-6 Yangxi Facilities (Note 1) | 1,479,241.04 per month | 50 months | 73,962,052.00 |
| 2. | Separate priced items | | | |

LETTER FROM THE BOARD

| No. | Item | Unit price (RMB) | Amount | Total fee to be received during the entire term (RMB) |
|--------------|---|-------------------------|-----------|---|
| 2.1. | Maintenance fee for delayed operation of No. 5-6 facilities (Note 2) | 155,119.86 per month | 40 months | 6,204,794.40 <i>(subject to actual costs incurred)</i> |
| 2.2. | Additional projects fee (Note 3) | Nil | Nil | 2,000,000.00 <i>(subject to actual costs incurred)</i> |
| 3. | Adjustment of labor costs for routine maintenance in the third stage (Note 4) | Nil | Nil | 2,749,905.00 <i>(subject to adjustment mechanism stated below)</i> |
| Total | | | | 84,916,751.40 |

Notes:

1. The maintenance fee primarily includes labor costs, material costs, construction machinery cost, management fee etc.
2. The maintenance fee for delayed operation of No. 5-6 facilities includes BC1A/B/C belt conveyor extension section and dock extension section, No. 4 ship unloader and No. 5 ship unloader.
3. For the individual project price exceeding RMB50,000 but less than RMB100,000, the total price of the additional projects fee is estimated to be RMB2,000,000 subject to the actual costs incurred.
4. The amount of adjustment provision for labor costs for maintenance was determined based on requirements set out in the tendering document, which is applicable to all service providers participated in the tendering process.

LETTER FROM THE BOARD

Pricing basis of service fee: The total service fee in respect of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement is determined based on the bidding price offered by the Group based on the objective standards in terms of the required scope of services and the respective term and frequency required for different types of services set out in the tendering process, after which Yangxi Electric awarded the contract to us after conducting the bid-evaluation.

The tendering procedures mainly consist of certain stages: (i) Yangxi Electric will issue the tender invitation to various entities in the industry; (ii) the entities will prepare the tender materials according to the bidding invitation and submit to Yangxi Electric; and (iii) the bid-evaluation team of Yangxi Electric will consider the comprehensive aspects, such as the quotations, technical skills, business operation, qualification, historical trading records of the bidders, and settlement methods, and enter into a contract with the winning bidder.

The Group has performed and considered the following before determining the bidding price:

1. assigning a designated team responsible for preparing bidding proposals and other related work;
2. liaising with the operation and technical departments to understand the nature of the project, including the technical skills, the manpower, materials and equipment involved;
3. formulating the cost estimate by conducting research in the prevailing wages for the required manpower and obtain various quotations for the required materials and equipment;
4. conducting on-site investigation to better understand the nature and requirements of the project;
5. conducting research in relation to the market prevailing prices of similar projects; and

LETTER FROM THE BOARD

6. discussing and determining the appropriate range of bidding price for a balance between a competitive quotation and achieving better profitability of the project.

Taking into account the aforesaid, the Directors are of the view that the basis of determination of the total service fee is fair and reasonable, on the normal commercial terms and in the interest of the Company and its shareholders.

Payment term:

(1). Monthly payment:

Beijing Boqi Yangxi Branch shall submit the payment application form for service fee incurred for the previous month before the 10th of each month to Yangxi Electric. Yangxi Electric shall pay Beijing Boqi Yangxi Branch 90% of the total payment for the previous month as approved by Yangxi Electric and the remaining 10% will be withheld by Yangxi Electric as maintenance warranty (the “**maintenance warranty**”). The last monthly payment will be made after the parties settle the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement.

(2). Refund of the maintenance warranty:

Yangxi Electric shall refund routine maintenance warranty (interest-free) annually after the expiration of the annual routine maintenance period and within 30 days after Yangxi Electric confirms that the facilities have no maintenance quality issue. The last refund for the routine maintenance warranty will be made after the parties settle No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement.

Adjustment mechanism for labor costs:

The labor costs for routine maintenance in the first and second stages will not be adjusted. Only the labor costs incurred in the third stage will be adjusted.

LETTER FROM THE BOARD

The calculation formula of labor cost adjustment:

$F_i = M \times C \times$ the third-stage monthly maintenance quantity (i.e. 26 months), of which:

F_i = the adjustment price of the labor cost for the routine maintenance in the third stage;

M = the monthly labor cost for the routine maintenance;

C = the adjustment ratio of labor cost ($-10\% \leq C \leq 10\%$, the excess part will not be adjusted);

The adjustment ratio of the labor cost

$$= \left(\frac{\text{the weighted average price of the comprehensive labor unit price of the Yangjiang Project Cost Information in the first quarter of 2025}}{\text{the weighted average price of the comprehensive labor unit price of the Yangjiang Project Cost Information in the first quarter of 2023}} - 100\% \right) \times 50\%$$

Key assumptions:

1. *Yangjiang Project Cost Information will remain an applicable benchmark for the comprehensive labor unit price in Guangdong Province.*
2. *There will be no material changes in the labour market in the Guangdong Province.*

LETTER FROM THE BOARD

The comprehensive labor unit price is determined with reference to the “Yangjiang Project Cost Information” during the performance of No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement. The labor cost adjustment for the routine maintenance in the third stage will be paid on an average monthly basis since the second quarter of the third stage.

Based on the principle of risk sharing, if the weighted average price of the comprehensive labor unit price in the third stage drops year-on-year, Yangxi Electric will deduct the payment to Beijing Boqi Yangxi Branch according to the above-mentioned labor cost adjustment calculation principle. If Beijing Boqi Yangxi Branch raises any objection and requests termination of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, it shall be deemed as a breach of contract. Yangxi Electric has the right to deduct the unpaid adjustment of labor costs for the routine maintenance, and Beijing Boqi Yangxi Branch shall also compensate Yangxi Electric for liquidated damages of 20% of the annual routine maintenance fees. In the event the liquidated damages are not sufficient to compensate Yangxi Electric’s losses, and Yangxi Electric has the right to continue to seek additional compensation.

The liquidated damages of 20% of the annual routine maintenance fees is determined by both parties through negotiation on arm’s length basis. According to relevant applicable laws and regulations such as Civil Code of the People’s Republic of China (中華人民共和國民法典), the parties may agree that if one party breaches the contract, they shall pay a certain amount of liquidated damages to the other party based on the circumstances of the breach, and the percentage of the aforesaid liquidated damages of annual routine maintenance fees is comparable to the Group’s other similar transactions. Therefore, the Directors are of the view that the liquidated damages are fair and reasonable and on the normal commercial terms.

LETTER FROM THE BOARD

Performance guarantee:

Beijing Boqi Yangxi Branch shall provide an unconditional, irrevocable, and pay-on-demand bank performance guarantee (in the form and content as agreed by Beijing Boqi Yangxi Branch and Yangxi Electric) (the “**guarantee**”) in favor of Yangxi Electric with an amount equivalent to 10% of the annual routine maintenance fee. The guarantee will be refunded without interest within 30 days after the expiration or termination of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement.

The guarantee with an amount equivalent to 10% of the annual routine maintenance fee is common industry practice for provision of operation and maintenance services of coal conveying system and dock system. Therefore, the Directors are of the view that the guarantee are fair and reasonable and on the normal commercial terms.

Upon receiving the guarantee, Yangxi Electric will refund the tendering Deposit.

The tendering Deposit was RMB800,000 and was determined after having considered relevant applicable laws and regulations such as Construction Tendering and Bidding Measures for Engineering Construction Projects (工程建設項目施工招標投標辦法), which sets out that the tenderer can require a tendering deposit in the bidding documents; and the tendering deposit shall not exceed 2% of the estimated project price, but the maximum amount shall not exceed RMB800,000. Therefore, the Directors are of the view that the tendering arrangements are fair and reasonable and on the normal commercial terms.

LETTER FROM THE BOARD

If Beijing Boqi Yangxi Branch fails to comply with the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, Yangxi Electric has the right to unilaterally terminate the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, and deduct all of the guarantee. For the avoidance of doubt, the guarantee co-exists with Beijing Boqi's other responsibilities and liabilities under the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement.

Historical figures and annual caps:

Since the Group and Yangxi Electric had not entered into similar transactions in respect of No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance in the past, no historical transaction figure is available.

Basis of pricing terms of the CCTs

It is the opinion of the Board that the revenue from the CCTs is greatly affected by the scope of service and technical parameters. The pricing policies adopted for the CCTs take into account the following factors:

1. the expected costs and expenses involved in the CCTs, including but not limited to the costs relating to labour, materials and equipment;
2. the applicable industry benchmark or standard, such as Determination of Desulfurization Price of Coal-Fired Generating Units and Operation of Desulfurization Facilities (燃煤發電機組脫硫電價及脫硫設施運行管理辦法) and the Notice on Further Diverting the Contradiction of Environmental Protection Electricity Prices (Development and Reform Price [2014] No. 1908 (關於進一步疏導環保電價矛盾的通知(發改價格[2014]1908號));
3. average sulfur and nitrogen content and dust volume of flue gas emission of the power plant and the standards to be met, the power generation volume and the location;
4. reasonable returns, including profits gained through sale of reserve parts, spare parts and materials for equipment procured from third-party suppliers;
5. the requirements set out in the tender document(s) in terms of required scope of services and respective terms or frequency required for different types of services (as and when applicable); and

LETTER FROM THE BOARD

6. the prevailing market prices of similar projects.

In respect of No. 1-2 Yangxi Facilities Operation Service and No. 3-4 Yangxi Facilities O&M Operation and No. 5-6 Yangxi Facilities Maintenance Service, the Company's historical project data shows that the contract price obtained through commercial negotiations with independent third parties accounts for 65% to 142% of the prevailing government subsidies. The variation arises out of the cost difference in the installed capacity of the coal-fired power plant, the type of devices installed, and the flue gas parameters of the environmental protection device (flue gas volume, SO₂ content of the flue gas inlet, NO_x content of the inlet), limestone, spare parts, labor, which reflect the specific requirements of each project. At the time of entering into the Yangxi Agreements, the rate for the provision of O&M services was determined based on cost plus a reasonable profit margin. Yangxi Agreements has been implemented since 2017 and the overall gross profit margin of the O&M segment of the Company remained within the range of 20% to 30% for the three financial years ended 31 December 2022. It is expected that the aforesaid overall gross profit margin of the O&M segment of the Company will not be adversely affected after provision of No. 1-2 Yangxi Facilities Operation Service and No. 3-4 Yangxi Facilities O&M Operation and No. 5-6 Yangxi Facilities Maintenance Service.

In the meantime, at the time of entering into the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and 2023 Supplemental Agreement, the government subsidies available to Guangdong Huaxia Electric and Yangxi Electric have been taken into account as one of the factors for the negotiation between the parties for the O&M services rate, which is determined based on the relevant subsidies with respect to desulfurization and denitrification being RMB0.025 per kWh. In event that the government prescribed subsidies are adjusted, the service fees under the Yangxi Agreements shall be adjusted in accordance with a further arm's length negotiations with Guangdong Huaxia Electric and Yangxi Electric and by mutual agreement between the parties to ensure that it is on normal commercial terms, no less favourable than those with independent third parties. If there will be any adjustment to the O&M service rate due to adjustment to government subsidies accordingly and supplemental agreement to the Yangxi agreements to be entered into between the parties, the Company will comply with the approval and disclosure procedures as appropriate in a timely manner in accordance with the Listing Rules, if applicable. The government subsidies are for reference and any risks arising from Yangxi Electric's failure to receive the relevant subsidies from the power grid companies will not affect the service fee income of the Company. Since the implementation of the Yangxi Agreement in 2017 and as at the Latest Practicable Date, the rate (per kWh) for the provision of O&M services under the Yangxi Agreement is a fixed rate (exclusive of value-added tax), which has not been adjusted as the government subsidies have not been adjusted during the corresponding period.

LETTER FROM THE BOARD

In respect of the floating adjustment in respect of No. 1-2 Yangxi Facilities Operation Service and No. 3-4 Yangxi Facilities O&M Operation, the Directors considered the following factors:

1. Floating adjustment has been in place for the service fees in respect of No. 1-4 Yangxi Facilities payable by Yangxi Electric to the Group, which has been determined based on the market conditions and applicable policies. After the long term cooperation, both the Group and Yangxi Electric agreed to further standardize the mechanism of floating adjustment based on the financial performance of No. 1-4 units owned by Yangxi Electric for risk sharing, so as to better maintain and strengthen the cooperation. The Group further negotiated a cap of $\pm 10\%$ as a means to control the risk involved in the floating adjustment.
2. In the worst scenario that the Group's service fees in respect of desulfurization and denitrification subsidies is subject to a 10% discount, according to the results as calculated by the Company, the implied margins for the No. 1-2 Yangxi Facilities Operation Service and No. 3-4 Yangxi Facilities O&M Operation still fall within the gross profit margin of projects in respect of similar services provided by the Group to independent third parties, and were above the median, which was within reasonable range.

Taking into account of the above, the Directors are of the view that the floating adjustment is fair and reasonable.

To the best knowledge and information of the Directors and having made all reasonable enquiries, given the business performance and operation of No. 1-4 units owned by Yangxi Electric are closely associated with the same sets of applicable rules, regulations and policies, Yangxi Electric has been conducting the audit works of its facilities altogether and found practical difficulties in preparing standalone financial statements in respect of its No. 1-2 units and No. 3-4 units separately. As such, the floating adjustment in relation to the No. 1-2 Yangxi Facilities and No. 3-4 Yangxi Facilities would be determined with reference to the net profit/loss recorded in the audited financial statements of Yangxi Electric, as no standalone audited financial statements would be available for No. 1-2 units or No. 3-4 units owned by Yangxi Electric.

In respect of the No. 5-6 Yangxi Facilities Maintenance Service and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance, the agreements of which were obtained through tender procedures, the Group has performed and considered a series of procedures and factors before determination of the bidding prices. For details, please refer to the paragraph headed "V. No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement – Pricing basis of service fee" in this letter above.

Taking into account the aforesaid, the Directors are of the view that the pricing terms of the CCTs are fair and reasonable, on the normal commercial terms and in the interest of the Company and its shareholders as a whole.

LETTER FROM THE BOARD

VI. PROPOSED ANNUAL CAPS

Proposed Annual Caps for service fees

The aggregated Proposed Annual Caps for the service fee received by the Group under (i) No. 1-2 Yangxi Facilities Operation Service; (ii) the 2023 Supplemental Agreement; (iii) No. 5-6 Yangxi Facilities Maintenance Service Agreement; and (iv) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement are expected not to exceed RMB262.7 million, RMB322.4 million and RMB322.4 million respectively, for the three years ending 31 December 2025. Such annual caps are determined mainly after taking into account the revenue/costs expected to be incurred by the transactions contemplated under the aforementioned agreements, by adding a 10% buffer to provide the Company with some flexibility to cater for any unexpected increase in transaction amounts for previous year. The details of the revenue/costs expected to be incurred by the transactions contemplated under the aforementioned agreements are set out below:

No. 1-2 Yangxi Facilities Operation Service

The details of the proposed annual caps of No. 1-2 Yangxi Facilities Operation Service, which will be RMB114.4 million, RMB152.9 million and RMB152.9 million for the three years ending 31 December 2025, are set out below.

(i) Desulfurization and denitrification subsidies

The expected service fees (inclusive of 10% buffer) in respect of desulfurization and denitrification subsidies from No. 1-2 Yangxi Facilities Operation Service for the three years ending 31 December 2025 are determined after having considered:

- (a) Approximately 5,900 million kWh, being the estimated annual on-grid electricity generation to be generated by No. 1-2 Yangxi power generating units, having considered the historical on-grid electricity generation by No. 1-2 Yangxi power generating units, details of which are set out below:

| | For the year ended 31 December | | | | | |
|--|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Annual on-grid electricity generation generated by No. 1-2 Yangxi power generating units (million kWh) | 4,672 | 6,252 | 4,999 | 3,374 | 4,764 | 3,245 |

The estimated annual on-grid electricity generation to be generated by No. 1-2 Yangxi power generating units of approximately 5,900 million kWh for the three years ending 31 December 2025 is substantially more than that for 2022. Due to the impact of the COVID-19 pandemic on industrial production, the on-grid power generation (in particular in 2020 and 2022) was substantially lower than those in pre-COVID -19 pandemic period. This is supported by the table above, pursuant to which on-grid electricity generation generally remains at level of approximately

LETTER FROM THE BOARD

4,700 million kWh to 6,300 million kWh from 2017 to 2019. The Directors expected the on-grid power electricity generation by Yangxi Electric for the three years ending 31 December 2025 would gradually recover to that before COVID-19 pandemic due to the relaxation of control measures and policies for COVID-19 pandemic in PRC.

The on-grid power generation of No. 1-2 Yangxi power generating units is expected to remain at a relatively stable level in the near future with reference to its historical power generation, the GDP growth of Guangdong Province in recent years and the electricity consumption in Guangdong Province;

- (b) RMB0.025 per kWh (tax included), being the aggregate desulfurization and denitrification subsidies based on the current “benchmark desulfurization and denitrification subsidies”. Given that the “benchmark desulfurization and denitrification subsidies” is determined and promulgated by the relevant government authorities, the frequency of renewal is uncertain. The “benchmark desulfurization and denitrification subsidies” has remained stable. The desulfurization subsidy was set at RMB0.015 per kWh (value-added tax included) on 29 May 2007 and hasn't changed since. The denitrification subsidy was RMB0.008 per kWh (value-added tax included) on 29 November 2011, and was increased to RMB0.01 per kWh (value-added tax included) on 27 August 2013. The subsidies with respect to desulfurization and denitrification being RMB0.025 per kWh is determined in accordance with the relevant regulations on the Determination of Desulfurization Price of Coal-Fired Generating Units and Operation of Desulfurization Facilities (燃煤發電機組脫硫電價及脫硫設施運行管理辦法) and the Notice on Further Diverting the Contradiction of Environmental Protection Electricity Prices (Development and Reform Price [2014] No. 1908 (關於進一步疏導環保電價矛盾的通知(發改價格[2014]1908號)). Therefore, the Directors considered that the fixed rate is on the normal commercial terms even though the frequency of renewal is uncertain; and
- (c) assuming Beijing Boqi will be entitled to the maximum “floating” premium of 10%.

(ii) *“Ultra-low emission” operation service fees*

Since the Group and Yangxi Electric had not entered into similar transactions in respect of No. 1-2 Yangxi Facilities Operation Service in the past, no historical transaction figure is available.

The expected service fees (inclusive of 10% buffer) in respect of “ultra-low emission” operation service fees from No. 1-2 Yangxi Facilities Operation Service for the three years ending 31 December 2025 are determined after having considered the market rates and a prudent view that the transaction amounts for upcoming years shall be at a similar level.

The 2023 Supplemental Agreement

The details of the proposed annual caps of No. 3-4 Yangxi Facilities O&M under 2023 Supplemental Agreement, which will be RMB134.6 million, RMB142.3 million and RMB142.3 million for the three years ending 31 December 2025, are set out below.

LETTER FROM THE BOARD

(i) *Desulfurization and denitrification subsidies*

The expected service fees (inclusive of 10% buffer) in respect of desulfurization and denitrification subsidies under 2023 Supplemental Agreement for the three years ending 31 December 2025 are determined after having considered:

- (a) Approximately 5,900 million kWh, being the estimated annual on-grid electricity generation to be generated by No. 3-4 Yangxi power generating units (as the case may be) for the three years ending 31 December 2025, having considered the historical on-grid electricity generation by No. 3-4 Yangxi power generating units, details of which are set out below:

| | For the year ended 31 December | | | | | |
|--|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Annual on-grid electricity generation generated by No. 3-4 Yangxi power generating units (million kWh) | 6,303 | 5,818 | 4,674 | 3,986 | 4,584 | 4,282 |

The estimated annual on-grid electricity generation to be generated by No. 3-4 Yangxi power generating units of approximately 5,900 million kWh for the three years ending 31 December 2025 is substantially more than that for 2022. Due to the “Ultra-low emission” operation renovation of No. 1-2 Yangxi Facilities in 2017, more electricity related production was transferred to No. 3-4 Yangxi power generating units, resulting in a particularly high production volume in 2017, which was resumed normal level thereafter. Furthermore, due to the impact of the COVID-19 pandemic on industrial production, the on-grid power generation (in particular in 2020 and 2022) was substantially lower than those in pre-COVID -19 pandemic period. This is supported by the table above. The Directors expected the on-grid power electricity generation by Yangxi Electric for the three years ending 31 December 2025 would gradually recover to that before COVID-19 pandemic due to the relaxation of control measures and policies for COVID-19 pandemic in PRC.

The on-grid power generation of No. 3-4 Yangxi power generating units is expected to remain at a relatively stable level in the near future with reference to its historical power generation, the GDP growth of Guangdong Province in recent years and the electricity consumption in Guangdong Province;

- (b) RMB0.02143 per kWh (tax included), being the fixed rate as mutually agreed by the parties and the same rate stipulated in the 2020 Supplemental Agreement. Given that the “benchmark desulfurization and denitrification subsidies” is determined and promulgated by the relevant government authorities, the frequency of renewal is uncertain. The “benchmark desulfurization and denitrification subsidies” has remained stable. Therefore, the Directors considered that the fixed rate is on the normal commercial terms even though the frequency of renewal is uncertain; and
- (c) the revised pricing terms pursuant to the 2023 Supplemental Agreement, which shall adjust the service fee from 1 January 2023 on the premise of the 2023 Supplemental Agreement becoming effective.

LETTER FROM THE BOARD

(ii) *“Ultra-low emission” operation service fees*

No historical transaction figure is available for similar transactions in respect of “Ultra-low emission” operation service fees for No. 3-4 Yangxi Facilities.

The expected service fees (inclusive of 10% buffer) in respect of “ultra-low emission” operation service fees from No. 3-4 Yangxi Facilities O&M Operation for the three years ending 31 December 2025 are determined after having considered the market rates and a prudent view that the transaction amounts for upcoming years shall be at a similar level.

No. 5-6 Yangxi Facilities Maintenance Service Agreement

As a result of the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement, the Board considers that the annual caps under the No. 5-6 Yangxi Facilities Maintenance Service Agreement for the three years ending 31 December 2025 should be revised. The proposed annual caps under the Supplemental Agreement, which will be RMB6.1 million, RMB7.2 million and RMB7.2 million for the three years ending 31 December 2025, were determined by the Board after taking into account (i) the factors taken into account by the Board in determining the original annual caps under the No. 5-6 Yangxi Facilities Maintenance Service Agreement for the three years ending 31 December 2025, which include: (a) the fixed monthly routine maintenance fee as set out in the No. 5-6 Yangxi Facilities Maintenance Service Agreement multiplied by corresponding number of service months during the year; (b) the C-level inspection and maintenance fee as set out in the No. 5-6 Yangxi Facilities Maintenance Service Agreement. Since Beijing Boqi will perform C-level inspection and maintenance service on an as-needed basis in relation to the operation of the No. 5-6 Yangxi Facilities, the Company has assumed that the C-level inspection and maintenance service will be performed twice (i.e. once for each of No. 5-6 Yangxi Facilities) per year for the calculation of the original annual caps under the No. 5-6 Yangxi Facilities Maintenance Service Agreement. Nonetheless, Beijing Boqi will observe and comply with the No. 5-6 Yangxi Facilities Maintenance Service Agreement and perform C-level inspection and maintenance service for the No. 5-6 Yangxi Facilities up to 10 times in total; and (c) the potential labour costs increase and inflation and the adjustment mechanism in the third stage between 2025 and 2027 as set out in the No. 5-6 Yangxi Facilities Maintenance Service Agreement. For further details, please refer to the announcement of the Company dated 25 January 2022; (ii) the historical transaction amounts under No. 5-6 Yangxi Facilities Maintenance Service Agreement; and (iii) the amended service fee pursuant to the Supplemental Agreement.

LETTER FROM THE BOARD

No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement

The proposed annual caps of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, which will be RMB7.7 million, RMB20.1 million and RMB20.1 million for the three years ending 31 December 2025, are determined after having considered:

- (i) the aggregate of:
 - (a) the fixed monthly routine maintenance fee as set out in the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement multiplied by corresponding number of service months during the year;
 - (b) the estimated monthly maintenance fee for delayed operation of No. 5-6 Yangxi Facilities as set out in the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement multiplied by corresponding number of service months during the year;
 - (c) the estimated additional projects fee as set out in the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement divided by estimated months amount to complete the additional projects and multiplied by corresponding number of service months during the year; and
 - (d) the potential labour costs increase and inflation and the adjustment mechanism in the third stage as set out in the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement;
- (ii) the inclusion of a buffer for the estimated amount of the services required by the Group under the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement so as to accommodate any unexpected occurrence or unexpected increase in the cost of provision of the services as contemplated under the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement.

Proposed Annual Caps for ancillary charges

The aggregated Proposed Annual Caps for the ancillary charges paid by Group under (i) No. 1-2 Yangxi Facilities Operation Service; and (ii) No. 3-4 Yangxi Facilities O&M Operation are expected not to exceed RMB81.5 million, RMB90.6 million and RMB90.6 million respectively, for the three years ending 31 December 2025.

LETTER FROM THE BOARD

No. 1-2 Yangxi Facilities Operation Service

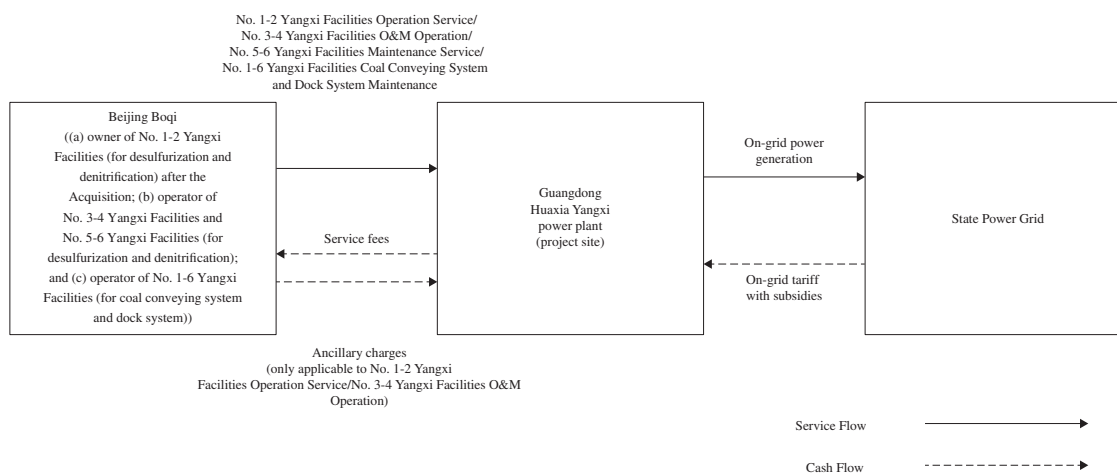
The expected ancillary charges (inclusive of 10% buffer) to be incurred by No. 1-2 Yangxi Facilities Operation Service, which will be RMB37.5 million, RMB46.9 million and RMB46.9 million for the three years ending 31 December 2025, are determined with reference to (i) historical ancillary charges incurred by No. 1-4 Yangxi Facilities under O&M services as stated above; (ii) pricing mechanism for ancillary charges pursuant to No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement as disclosed above; and (iii) a prudent view that the transaction amounts for upcoming years shall be at a similar level.

No. 3-4 Yangxi Facilities O&M Operation

The expected ancillary charges (inclusive of 10% buffer) under No. 3-4 Yangxi Facilities O&M Operation, which will be RMB44.1 million, RMB43.7 million and RMB43.7 million for the three years ending 31 December 2025, are determined with reference to (i) historical ancillary charges incurred by No. 1-4 Yangxi Facilities under O&M services as stated above; (ii) pricing mechanism for ancillary charges pursuant to Yangxi Agreements as disclosed above; and (iii) a prudent view that the transaction amounts for upcoming years shall be at a similar level.

VII. INTERNAL CONTROL MEASURES

The chart below sets forth the business flow of No. 1-2 Yangxi Facilities Operation Service, No. 3-4 Yangxi Facilities O&M Operation, No. 5-6 Yangxi Facilities Maintenance Service and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance among Beijing Boqi, Guangdong Huaxia Yangxi power plant and the State Power Grid:



LETTER FROM THE BOARD

Service fees in respect of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and the 2023 Supplemental Agreement

The Company has in place comprehensive project management procedures. Firstly, the Company will establish a project team, which comprises of professionals from the marketing department, business center and technical actuarial department. Secondly, cost estimation will be performed by an inspector from Beijing Boqi who will enter the site of project. Finally, we will enter into commercial negotiation with site owners. During the contracting process, the Company will perform strict contract review and approval process internally with the terms of contract being confirmed by the legal department and financial department in addition to the review conducted by participating business department and the technical actuarial department, so as to guarantee the Company's interests.

The Company has developed standardization systems, enabling it to determine service fees for each operation service and O&M project through strict calculation. As such, the Directors are of the view that the project is carried out according to market practice and the service fees payable by Yangxi Electric will not be lower than those with independent third-party customers.

(I) Desulfurization and denitrification subsidies

The Operation Center of the Company conducts weekly checks on any update on the policies on the government prescribed subsidies for any adjustment, in the public domain and monthly checks on the latest status of the "benchmark on-grid tariff" promulgated by the competent government authorities. In the event that the "benchmark desulfurization and denitrification subsidies" prescribed by the PRC government are adjusted, the service fees in respect of desulfurization and denitrification subsidies under No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement shall be adjusted accordingly in the manner as prescribed therein. Also, with respect to service fees in respect of desulfurization and denitrification subsidies under the 2023 Supplemental Agreement, the Company will negotiate with Yangxi Electric on arm's length negotiation such that it remains as normal commercial terms, no less favourable than those with independent third parties.

Except for the "10% floating adjustment" which shall be settled annually, service fees of desulfurization and denitrification subsidies under No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and the 2023 Supplemental Agreement are settled monthly. On the 15th of each month, the settlement personnel of Yangxi Electric provide the relevant data with respect of the tariff and the settlement certificate between Guangdong Huaxia Yangxi power plant and the State Power Grid. Beijing Boqi determines the actual service fees for the previous month according to the settlement certificate between Guangdong Huaxia Yangxi power plant and the State Power Grid, including the weighted average on-grid tariff based on the on-grid power generation, and the power generation data, and according to the calculation method of the Proposed O&M Services Rate under the terms of the 2023 Supplemental Agreement. After the settlement personnel of both parties have

LETTER FROM THE BOARD

confirmed the actual O&M services rate and the settlement data, the monthly settlement statement will be signed by the project personnel with the department seal in accordance with the internal approval process of Beijing Boqi.

(II) “Ultra-low emission” operation

The service fee in respect of “ultra-low emission” operation includes fixed cost and variable cost. Fixed cost (such as labour cost and spare parts cost) will be paid in accordance with the terms stated in No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and the 2023 Supplemental Agreement. Variable costs (such as electricity charges and other expenses, both of which are calculated by multiplying the actual consumption) will be calculated based on actual costs and expenses incurred. In order to ensure that the sum paid upon settlement is the actual costs and expenses incurred, Beijing Boqi will establish a project team, which comprises of professionals from the marketing department, maintenance business center and technical actuarial department to check and calculate the “ultra-low emission” operation fees. Also, an inspector from Beijing Boqi who will enter the site of project to track the actual costs and expenses incurred.

Ancillary charges

In order to ensure that the sum paid upon settlement is the actual charges occurred, Beijing Boqi has installed meters in the areas of its operation. Each month, Beijing Boqi settles ancillary charges by calculation of the actual data with Guangdong Huaxia Yangxi power plant.

Specifically, Beijing Boqi has technical personnel on the project site for the provision of services in respect of the Yangxi Facilities, who will check the on-site meters tracking the energy consumption, such as water, electricity, gas and steam. Beijing Boqi and Yangxi Electric shall both confirm the relevant monthly statements prior to payment by Beijing Boqi, ensuring that the ancillary charges are the actual operation costs incurred.

In addition, the Company will endeavor to carry out adequate supervision over the transaction amount under No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and the 2023 Supplemental Agreement against the relevant Proposed Annual Caps, with a view to ensuring that necessary measures and appropriate actions for the compliance with the applicable requirements under the Listing Rules will be promptly taken. Data relating to connected transactions of our Company (including quarterly transaction amounts and cumulative amounts) will be reviewed on a quarterly basis.

Service fees in respect of No. 5-6 Yangxi Facilities Maintenance Service

The service fee in respect of routine maintenance fee for the No. 5-6 Yangxi Facilities Maintenance Service (including the adjustment provision for labor costs for routine maintenance for the No. 5-6 Yangxi Facilities in the third stage between January 2025 and August 2027) is fixed and will be paid in accordance with the terms stated in the No. 5-6 Yangxi Facilities Maintenance Service Agreement.

LETTER FROM THE BOARD

Whereas, service fee in respect of C-level inspection and maintenance for No. 5-6 Yangxi Facilities Maintenance Services, expected to be a total of RMB1,921,248 as stated in the No. 5-6 Yangxi Facilities Maintenance Service Agreement, will be calculated based on actual costs incurred. In order to ensure that the sum paid upon settlement is the actual costs incurred, Beijing Boqi will establish a project team, which comprises of professionals from the marketing department, maintenance business center and technical actuarial department to check and calculate the costs to be incurred, especially, an inspector from Beijing Boqi who will enter the site of project to track the costs incurred ensuring that the C-level inspection and maintenance fees are the actual costs incurred. The Group's finance department will double check services fees to be received according to settlement certificate between Beijing Boqi Yangxi Branch and Yangxi Electric.

Service fees in respect of No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement

The service fee in respect of routine maintenance fee for the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance (including the adjustment provision for labor costs for routine maintenance for the No. 1-6 Yangxi Facilities in the third stage) is fixed and will be paid in accordance with the terms stated in the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement.

Whereas, maintenance fee for delayed operation of No. 5-6 Yangxi Facilities and additional projects fee, expected to be a total of RMB8,204,794.4 as stated in the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, will be calculated based on actual costs incurred. In order to ensure that the sum paid upon settlement is the actual costs incurred, Beijing Boqi will establish a project team, which comprises of professionals from the marketing department, maintenance business center and technical actuarial department to check and calculate the costs to be incurred, especially, an inspector from Beijing Boqi who will enter the site of project to track the costs incurred ensuring that fees are the actual costs incurred. The Group's finance department will double check services fees to be received according to settlement certificate between Beijing Boqi Yangxi Branch and Yangxi Electric.

In addition, the Company will endeavor to carry out adequate supervision over the total transaction amount under the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement against the relevant annual cap, with a view to ensure that necessary measures and appropriate actions for the compliance with the applicable requirements under the Listing Rules will be promptly taken. Information relating to connected transactions of our Company (including quarterly transaction amounts and cumulative amounts) will be reviewed on a quarterly basis.

The independent non-executive Directors will continue to review each of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement to ensure that it has been entered into on normal commercial terms or better, and its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and provide confirmation in the Company's annual report.

LETTER FROM THE BOARD

If the transaction amount under each of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement reaches 80% of the relevant annual cap at any point of the year, the management would seek advice from the audit committee and the Board would consider the next steps, including the need to inform the Stock Exchange, to publish any announcement and to seek Independent Shareholders' approval for an increase in annual caps, if applicable.

VIII. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

In recent years, coal consumption and pollution emission standards have been significantly tightened. To comply with such stringent standards, and minimize operational risk while also minimizing the costs to be incurred, Yangxi Electric engaged Beijing Boqi, being a leading independent and recognized flue gas treatment integrated service provider, to be the sole desulfurization and denitrification service provider for its Guangdong Huaxia Yangxi power plant. Further, it is in the benefit of Yangxi Electric to retain only one desulfurization and denitrification service provider to the Yangxi Facilities for the purpose of minimizing costs and eliminating the need to manage a few different service providers with different points of contact and who may use different quality management systems. Provision of desulfurization and denitrification services has been the Group's usual course of business and Beijing Boqi has earned numerous highly-recognized awards in the flue gas treatment industry, and having been already familiarized with the operations and facilities of Yangxi Electric as a result of provision of O&M services for Yangxi Facilities over the past years.

As disclosed in the Prospectus, pursuant to a cooperation framework agreement dated 20 May 2016 entered into between Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric, Beijing Boqi had agreed to acquire the Yangxi Facilities. Due to an unexpected delay in the release of the then mortgage of the Yangxi Facilities, such acquisitions were delayed and it was further agreed among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric on 28 August 2017 that such acquisitions shall not be proceeded with. The Directors subsequently understood that the mortgage of No. 1-2 Yangxi Facilities had been released and thus the Company intends to materialise the acquisition of No. 1-2 Yangxi Facilities through the Acquisition, taking into account that the Acquisition can help the Group to better secure No. 1-2 Yangxi Facilities Operation Service, which is expected to be a stable income stream of the Group and that the Group has been familiarized with the operations of No. 1-2 Yangxi Facilities after being the sole desulfurization and denitrification service provider for years.

As of the Latest Practicable Date, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric were still in negotiation about the acquisition of No. 3-4 Yangxi Facilities by Beijing Boqi but have decided not to proceed with the acquisition of No. 5-6 Yangxi Facilities by Beijing Boqi.

LETTER FROM THE BOARD

By entering into No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, Beijing Boqi will leverage its relevant professional experience and strengths in the maintenance of the desulfurization and denitrification facilities, deliver its management experience and gain reasonable income and returns. The execution of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement is in line with the Group's overall strategy and business focus of engaging in the maintenance of the desulfurization and denitrification facilities and will enhance its market presence in Guangdong province. The enhancement of the Group's competitive edge in its core business is in the interests of the Group as a whole.

The Directors (including the independent non-executive Directors, having considered the views of Gram Capital) are of the view that the consideration of the above factors in determining the proposed annual caps for (i) No. 1-2 Yangxi Facilities Operation Service; (ii) O&M services contemplated under the 2023 Supplemental Agreement; (iii) No. 5-6 Yangxi Facilities Maintenance Service and (iv) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance under the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, for the three years ending 31 December 2025 are prudent, fair and reasonable and in the interests of the Shareholders as a whole.

Reliance on Yangxi Electric

The Directors are of the view that the transactions with Yangxi Electric will not lead to material reliance by the Group on the Yangxi Electric, based on the following reasons:

- (1) Upon completion of the Acquisition, Beijing Boqi shall own all the rights and interest (except for land) in No. 1-2 Yangxi Facilities, which means Beijing Boqi will have a long-term and stable impact on the operating income of the No. 1-2 Yangxi Facilities. The Acquisition has no significant impact on the Group's net asset value and debt ratio, and the operating capital expenditure has increased;
- (2) The agreements signed between the counterparties and the Group have become more standardized, that is, transactions thereunder are conducted through fair bidding methods and rely on fair competition and independence; and
- (3) As a leading independent flue gas treatment integrated services provider in the Chinese market and is an integrated environmental protection company for independent flue gas treatment that is not controlled by any power group, the Company provides environmental protection services through various business models including environmental protection facility engineering, operation and maintenance and concession operations with cooperative business relationship with numerous service providers in power and non-power industry, including Yangxi Electric.

LETTER FROM THE BOARD

IX. INFORMATION ON PARTIES

About the Company, Beijing Boqi and Beijing Boqi Yangxi Branch

The Group is mainly engaged in providing comprehensive and professional environmental management services in Mainland China to large industrial and energy customers, including flue gas treatment, hazardous solid waste treatment and disposal, industrial water treatment, and dual carbon new energy⁺, etc.

Beijing Boqi, a limited liability company established in the PRC, is an indirect wholly-owned subsidiary of the Company. Its main business includes providing services such as flue gas treatment, water treatment, hazardous solid waste treatment and disposal, as well as dual carbon new energy⁺ to large industrial and energy customers.

Beijing Boqi Yangxi Branch is a branch of Beijing Boqi, whose principal business includes technology development, technology transfer, and technical services.

About Guangdong Huaxia Electric and Yangxi Electric

Yangxi Electric, a limited liability company established in the PRC, is the major operating subsidiary of Guangdong Huaxia Electric, which mainly engaged in, among others, investment in electricity industry and has invested in a number of power plants in the PRC. Guangdong Huaxia Electric is a limited liability company established in the PRC, which mainly engaged in, among others, investment in electricity industry. It has invested in a number of power plants in the PRC, with Yangxi Electric as its current major operating subsidiary. Guangdong Pearl River Investment Management Group Co., Ltd., which is controlled by Mr. Zhu Yihang (朱一航), is the ultimate beneficial owner of Guangdong Huaxia Electric and is primarily engaged in energy and infrastructure investment in China.

X. LISTING RULES IMPLICATIONS

As of the Latest Practicable Date, Yangxi Electric is a wholly-owned subsidiary of Guangdong Huaxia Electric, which is owned and controlled by, through various intermediaries, Mr. Zhu Yihang (朱一航). Mr. Zhu Yihang is a brother and thus, an associate of Mr. Zhu, who is a non-executive Director and substantial Shareholder. Mr. Zhu and his associate(s) held an aggregate of 152,170,529 Shares, representing approximately 15.13% of the total issued Shares, as at the Latest Practicable Date. Yangxi Electric and Guangdong Huaxia Electric are deemed to be connected persons of the Company under Chapter 14A of the Listing Rules. As such, the Acquisition constitutes a connected transaction of the Company and each of No. 1-2 Yangxi Facilities Operation Service, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Agreement and the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement constitute continuing connected transactions of the Company.

LETTER FROM THE BOARD

As one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5% but all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable and connected transaction of the Company and is subject to the reporting and announcement requirements under chapter 14 and the reporting, annual review, announcement and Independent Shareholders' approval requirements under chapter 14A of the Listing Rules.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, since (i) No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement; (ii) the 2023 Supplemental Agreement; (iii) No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement; and (iv) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement are entered into by the Group with the same party within a 12-month period and (i) No. 1-2 Yangxi Facilities Operation Service; (ii) the 2023 Supplemental Agreement; (iii) No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement; and (iv) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement are of similar nature, the service fee received by the Group under (i) No. 1-2 Yangxi Facilities Operation Service; (ii) the 2023 Supplemental Agreement; (iii) No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement; and (iv) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement shall be aggregated and ancillary charges paid by Group under (i) No. 1-2 Yangxi Facilities Operation Service and (ii) No. 3-4 Yangxi Facilities O&M Operation shall be aggregated.

As one or more of the applicable percentage ratios in respect of Proposed Annual Caps exceeds 5%, the No. 1-2 Yangxi Facilities Operation Service, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under chapter 14A of the Listing Rules.

As the 2023 Supplemental Agreement constitutes a material change to the terms of Yangxi Agreements, pursuant to Rule 14A.54 of the Listing Rules, the 2023 Supplemental Agreement is subject to the announcement and Independent Shareholders' approval requirements under chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, the period for the agreement must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. Therefore, the Company has engaged Gram Capital to explain the reasons for longer periods required for the terms of the Yangxi Agreements, No. 1-2 Yangxi Facilities Operation Service, the 2023 Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and to confirm that it is normal business practice for an agreement of this type to be of such duration.

LETTER FROM THE BOARD

XI. GENERAL INFORMATION

1. EGM

A notice of the EGM to be held at the conference room of the Company at Floor 2, Guoben Culture Building, No. Jia 8, Xinglongzhuang, Chaoyang District, Beijing, the PRC on 29 December 2023 at 10:30 a.m., is set out on pages EGM-1 to EGM-2 of this circular. At the EGM, ordinary resolutions will be proposed and, if thought fit, passed in respect of (i) No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and transactions contemplated thereunder; (ii) the 2023 Supplemental Agreement and transactions contemplated thereunder; (iii) the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and transactions contemplated thereunder; (iv) the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder; and (v) the Proposed Annual Caps.

As Mr. Zhu is deemed to have a material interest in the transactions under No. 1-2 Yangxi Facilities Operation Service and the 2023 Supplemental Agreement with Guangdong Huaxia Electric and Yangxi Electric, the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement with Yangxi Electric, Mr. Zhu and his associate(s), who held an aggregate of 152,170,529 Shares, representing approximately 15.13% of the total issued Shares, as at the Latest Practicable Date, shall abstain from voting on the relevant resolutions.

Mr. Zhu, as non-executive Director, has material interests in the transactions under No. 1-2 Yangxi Facilities Operation Service and the 2023 Supplemental Agreement with Guangdong Huaxia Electric and Yangxi Electric, the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement with Yangxi Electric and had abstained from voting at the board meeting to approve these transactions.

To the best of the Directors' knowledge, belief and having made all reasonable enquiries, as at the Latest Practicable Date, save for disclosed above, no Director or Shareholder was or will be required to abstain from voting on the Board or Shareholders resolutions, as the case may be, for (i) No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and transactions contemplated thereunder; (ii) the 2023 Supplemental Agreement and transactions contemplated thereunder; (iii) the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement; (iv) the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder; and (v) the Proposed Annual Caps at the EGM.

A form of proxy for use at the EGM is attached. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance

LETTER FROM THE BOARD

Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than 10:30 a.m. on 27 December 2023. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders at the EGM will be taken by poll except where the chairman of the EGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. An announcement on the poll results will be published on the websites of the Company and of the Stock Exchange following the EGM.

In order to qualify for attending the EGM, all share certificates with completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 21 December 2023 for registration of share transfer. For determining the entitlement to attend and vote at the Meeting or any adjournment thereof, the record date is fixed on Thursday, 21 December 2023. Shareholders whose names appear on the register of members of the Company at the close of business on the record date will be entitled to attend and vote at the Meeting.

2. Additional Information

Your attention is also drawn to the general information of the Group as set out in appendix I to this circular as well as the asset valuation report as set out in appendix II to this circular.

XI. RECOMMENDATION

An Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Xie Guozhong, Mr. Lu Zhifang, Prof. Yu Wayne W. and Ms. Zhang Fan, has been formed to advise the Independent Shareholders in respect of the transactions (including the Proposed Annual Caps) contemplated under No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Supplemental Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement.

Gram Capital has been appointed to (A) advise the Independent Board Committee and the Independent Shareholders in respect of the transactions (including the Proposed Annual Caps) contemplated under No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement; and (B) provide advice under Rule 14A.52 of the Listing Rules.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors, having considered the views of Gram Capital) are of the view that while the Acquisition is not in the ordinary and usual course of business and the CCTs are in the ordinary and usual course of business, the terms of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement are fair and reasonable and the transactions contemplated thereunder (including the Proposed Annual Caps) are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolutions in respect of (i) No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and transactions contemplated thereunder; (ii) the 2023 Supplemental Agreement and transactions contemplated thereunder; (iii) the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement; (iv) the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder; and (v) the Proposed Annual Caps at the EGM.

Yours faithfully,

For and on behalf of the Board of Directors

Zeng Zhijun

Chairman, Executive Director and

Chief Executive Officer



China Boqi Environmental (Holding) Co., Ltd.
中國博奇環保(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2377)

12 December 2023

To the Independent Shareholders

Dear Sir or Madam,

- (I) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION AND CONTINUING CONNECTED TRANSACTION IN RELATION TO NO. 1-2 YANGXI FACILITIES OPERATION SERVICE UNDER NO. 1-2 YANGXI FACILITIES ASSET TRANSFER OF DESULFURIZATION AND DENITRIFICATION PROJECTS AGREEMENT;
AND
(II) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
(A) 2023 SUPPLEMENTAL AGREEMENT;
(B) SUPPLEMENTAL AGREEMENT TO NO. 5-6 YANGXI FACILITIES MAINTENANCE SERVICE AGREEMENT;
AND
(C) NO. 1-6 YANGXI FACILITIES COAL CONVEYING SYSTEM AND DOCK SYSTEM MAINTENANCE SERVICE AGREEMENT**

We have been appointed as members of the Independent Board Committee to consider and to advise the Independent Shareholders whether the terms of the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement are on normal commercial terms, fair and reasonable and whether the transactions contemplated thereunder (including the Proposed Annual Caps) are in the interests of the Company and the Shareholders as a whole, taking into account the recommendations of Gram Capital, being the independent financial advisers appointed to advise us and the Independent Shareholders in the abovementioned context.

Your attention is drawn to the “Letter from the Board” and the “Letter from Gram Capital” in the circular of the Company dated 12 December 2023 (the “Circular”), which contain, among other things, information and the advice from Gram Capital in respect of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement,

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

Having taking into account the reasons for and benefits of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder (including the Proposed Annual Caps) as set out in the “Letter from Gram Capital” on pages 58 to 102 of this Circular, we consider that while the Acquisition is not in the ordinary and usual course of business and the CCTs are in the ordinary and usual course of business, the terms of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement are on normal commercial terms, fair and reasonable and the transactions contemplated thereunder (including the Proposed Annual Caps) are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of all the ordinary resolutions as set out in the notice of the EGM to be convened and held on 29 December 2023 and thereby approve (i) No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and transactions contemplated thereunder; (ii) the 2023 Supplemental Agreement and transactions contemplated thereunder; (iii) the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and transactions contemplated thereunder; (iv) the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder; and (v) the Proposed Annual Caps.

Yours faithfully,
For and on behalf of
Independent Board Committee

Dr. Xie Guozhong

Mr. Lu Zhifang

Prof. Yu Wayne W.

Ms. Zhang Fan

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

12 December 2023

To: *The independent board committee and the independent shareholders of
China Boqi Environmental (Holding) Co., Ltd.*

Dear Sir/Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION; AND
(II) CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under (i) No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement; (ii) 2023 Supplemental Agreement; (iii) No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement; and (iv) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 12 December 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 27 October 2023, Beijing Boqi (an indirect wholly-owned subsidiary of the Company) entered into No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement with Guangdong Huaxia Electric and Yangxi Electric, pursuant to which Beijing Boqi agreed to acquire from Yangxi Electric No. 1-2 Yangxi Facilities (except for land) for the consideration of RMB154.26 million (excluding tax) (i.e. the Acquisition).

According to the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, upon completion of the Acquisition, the O&M services in relation to No.1-2 Yangxi Facilities provided by Beijing Boqi under the Yangxi Agreements shall be terminated and Beijing Boqi shall carry out No. 1-2 Yangxi Facilities Operation Service for a term until 31 December 2039. Under No. 1-2 Yangxi Facilities Operation Service, Beijing Boqi shall receive service fees in relation to (i) desulfurization and denitrification subsidies that are calculated by multiplying on-grid power generation by the applicable fixed rates; and (ii) “ultra-low emission” operation service fees that are calculated based on actual operation and maintenance costs. Meanwhile, Beijing Boqi shall pay Yangxi Electric ancillary charges arising from No. 1-2 Yangxi Facilities Operation Service.

LETTER FROM GRAM CAPITAL

On even date, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into the 2023 Supplemental Agreement, pursuant to which the parties agreed to amend and supplement certain terms contemplated under the Yangxi Agreement.

With reference to the Board Letter, Beijing Boqi Yangxi Branch shall enter into:

- (i) No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement with Yangxi Electric to amend the total service fee upon approval by the Independent Shareholders at the EGM; and
- (ii) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement with Yangxi Electric upon the approval by the Independent Shareholders at the EGM, pursuant to which Beijing Boqi will provide operation and maintenance services of coal conveying system and dock system (including pipe gallery, coal containing wastewater treatment system, all equipment at the dock, excluding air conditioning, firefighting, and lifting equipment within the bid section) in respect of the No. 1-6 Yangxi Facilities (together with the transactions under the No. 1-2 Yangxi Facilities Operation Service; the 2023 Supplemental Agreement; No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement; and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Services Agreement, the “CCTs”).

With reference to the Board Letter, (i) the Acquisition constitutes discloseable and connected transactions of the Company and is subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapters 14 and 14A of the Listing Rules; and (ii) the CCTs constitute continuing connected transactions of the Company and are subject to reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules (where applicable).

The Independent Board Committee comprising Dr. Xie Guozhong, Mr. Lu Zhifang, Prof. Yu Wayne W. and Ms. Zhang Fan (being all independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Transactions at the EGM.

In addition, since the term of each Yangxi Agreements (as supplemented by the 2023 Supplemental Agreement), No. 1-2 Yangxi Facilities Operation Service, No. 5-6 Yangxi Facilities Maintenance Service Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement is longer than three years, pursuant to Rule 14A.52 of the Listing Rules, the Company must appoint an independent financial adviser to explain why the aforesaid agreements requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

We, Gram Capital Limited, have been appointed as the Independent Financial Adviser in this respect.

LETTER FROM GRAM CAPITAL

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was independent financial adviser in respect of the continuing connected transactions pursuant to Rule 14A.52 of the Listing Rules, details of which were set out in the Company's announcement dated 25 January 2022. Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company with executed agreement during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid, we are not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

Besides, apart from the advisory fee and expenses payable to us in connection with this engagement as the Independent Financial Adviser, there is no arrangement whereby we shall be entitled to receive any other fees or benefits from the Company.

Having considered that (i) none of the circumstances as set out under Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid were independent financial advisory, we are of the view that we are independent from the Company pursuant to the requirements as set out under Rule 13.84 of the Listing Rules and to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

LETTER FROM GRAM CAPITAL

We have not made an independent evaluation or appraisal of the assets and liabilities of the Group or the No. 1-2 Yangxi Facilities and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report of the No. 1-2 Yangxi Facilities (the “**Valuation Report**”) prepared by Asia-Pacific Consulting and Appraisal Limited (the “**Valuer**”). Since we are not experts in the valuation of assets or businesses, we have relied solely upon the Valuation Report as at 30 September 2023 (the “**Valuation Date**”).

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make the Circular or any statement therein misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Guangdong Huaxia Electric, Yangxi Electric or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Group

With reference to the Board Letter, the Group is mainly engaged in providing comprehensive and professional environmental management services in Mainland China to large industrial and energy customers, including flue gas treatment, hazardous solid waste treatment and disposal, industrial water treatment, and dual-carbon new energy⁺, etc.

LETTER FROM GRAM CAPITAL

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2022 and for the six months ended 30 June 2023 (together with comparative figures) as extracted from the Company's annual report for the year ended 31 December 2022 (the "2022 Annual Report") and the Company's interim report for the six months ended 30 June 2023 (the "2023 Interim Report"):

| | For the six months ended 30 June 2023 ("1H2023") RMB'000 (unaudited) | For the six months ended 30 June 2022 ("1H2022") RMB'000 (unaudited) | Year- on-year change % | For the year ended 31 December 2022 ("FY2022") RMB'000 (audited) | For the year ended 31 December 2021 ("FY2021") RMB'000 (audited) | Year- on-year change % |
|--|--|--|---------------------------------|--|--|---------------------------------|
| Revenue | 1,000,686 | 721,070 | 38.78 | 1,900,248 | 2,092,172 | (9.17) |
| – <i>Flue gas treatment business</i> | 780,256 | 616,407 | 26.58 | 1,510,016 | 1,751,589 | (13.79) |
| <i>Environmental protection engineering ("EPC")</i> | 300,927 | 196,152 | 53.42 | 568,983 | 715,703 | (20.50) |
| <i>O&M</i> | 236,750 | 157,805 | 50.03 | 400,429 | 394,927 | 1.39 |
| <i>Concession operations</i> | 236,476 | 248,679 | (4.91) | 504,104 | 582,157 | (13.41) |
| <i>Others</i> | 6,103 | 13,771 | (55.68) | 36,500 | 58,802 | (37.93) |
| – <i>Water treatment business</i> | 162,432 | 90,115 | 80.25 | 270,878 | 100,286 | 170.11 |
| – <i>Hazardous and solid waste treatment/disposal business</i> | 13,766 | 4,625 | 197.64 | 11,717 | 20,062 | (41.60) |
| – <i>Dual-carbon new energy⁺ business</i> | 44,232 | 9,923 | 345.75 | 107,637 | 220,235 | (51.13) |
| Profit for the year/period | 135,908 | 3,045 | 4,363.32 | 155,658 | 348,402 | (55.32) |

As depicted in the above table, the Group's revenue was approximately RMB1,900 million for FY2022, representing a decrease of approximately 9.17% as compared to that for FY2021. With reference to the 2022 Annual Report, such decrease was mainly due to (i) the delay in progress of certain EPC projects due to the impact of the lockdown policy relating to COVID-19 pandemic; (ii) the decrease in power generation of certain concession operation projects and the termination of services under Shanxi Yuguang BOT Project; (iii) the decrease in revenue from the hazardous and solid waste treatment/disposal business due to the impact of the COVID-19 pandemic and environmental inspections; and (iv) the decrease in revenue from dual-carbon new energy⁺ business due to the completion of the construction of related projects, resulting in significant decrease in construction revenue.

LETTER FROM GRAM CAPITAL

The Group's profit was approximately RMB156 million for FY2022, representing a decrease of approximately 55.32% as compared to that for FY2021. With reference to the 2022 Annual Report, such decrease was mainly due to (i) the decrease in profit or loss from changes in fair value of financial assets at fair value through profit or loss under the impact of global and domestic economies, resulting in an increase of other expenses and losses; (ii) the increase in the impairment losses of financial assets and contract assets; and (iii) the decrease in share of profits of associates of the Group.

The Group's revenue was approximately RMB1,001 million for 1H2023, representing an increase of 38.78% as compared to that for 1H2022. With reference to the 2023 Interim Report, such increase was mainly due to (i) the existing orders have been carried out in an orderly manner after the relaxation of the control measures and policies for COVID-19 pandemic; (ii) the increase in the number of ongoing O&M as compared with the same period of 2022; and (iii) the year-on-year increase in power generation of certain O&M and concession operation projects.

Along with (i) the aforesaid increase in revenue and the corresponding increase in gross profit for 1H2023; and (ii) the significant decrease in other expenses and losses, the Group's profit for 1H2023 increased by approximately 44 times as compared to that for 1H2022.

With reference to the 2023 Interim Report, as at 30 June 2023, the Group's flue gas treatment projects, water treatment projects, hazardous and solid waste treatment/disposal projects and dual-carbon new energy projects have a wide coverage in the PRC, covering 31 provinces, municipalities and autonomous regions in the PRC. Meanwhile, the Group has been strived to expand overseas business in areas including Europe, South Asia, Latin America, Africa and Southeast Asia.

With reference to the Board Letter, (i) Beijing Boqi is a limited liability company established in the PRC and is an indirect wholly-owned subsidiary of the Company. Its main business includes providing services such as flue gas treatment, water treatment, hazardous solid waste treatment and disposal, as well as dual carbon new energy⁺ to large industrial and energy customers; and (ii) Beijing Boqi Yangxi Branch is a branch of Beijing Boqi and its principal business includes technology development, technology transfer, and technical services.

Information on Guangdong Huaxia Electric and Yangxi Electric

With reference to the Board Letter, Guangdong Huaxia Electric is a limited liability company established in the PRC, which mainly engaged in, among others, investment in electricity industry. It has invested in a number of power plants in the PRC, with Yangxi Electric as its current major operating subsidiary.

Yangxi Electric is a limited liability company established in the PRC and is the major operating subsidiary of Guangdong Huaxia Electric.

LETTER FROM GRAM CAPITAL

As at the Latest Practicable Date, Guangdong Huaxia Electric is owned and controlled by, through various intermediaries, Mr. Zhu Yihang, who is a brother and thus an associate of Mr. Zhu (a non-executive Director and substantial Shareholder). Therefore, both Guangdong Huaxia Electric and Yangxi Electric are connected persons of the Company.

Yangxi Project

On 20 May 2016, Beijing Boqi entered into a cooperation framework agreement with Guangdong Huaxia Electric and Yangxi Electric (the “**Cooperation Framework Agreement**”), pursuant to which Beijing Boqi agreed to acquire the Yangxi Facilities (comprising of No.1 – 4 desulfurization and denitrification facilities, the construction of which had already been completed by Yangxi Electric) and No. 5 – 6 desulfurization and denitrification facilities to be built by Yangxi Electric. The Yangxi Facilities was mortgaged by Yangxi Electric for securing certain borrowings made by Yangxi Electric from a number of banks in the PRC. After signing the Cooperation Framework Agreement, Yangxi Electric started discussions with relevant banks in respect of the release of the mortgage on the Yangxi Facilities.

In the view of the time for the relevant banks to consider such release of the mortgage, on 31 December 2016, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a management service agreement (“**Yangxi Management Service Agreement**”) in relation to the provision of operation, daily maintenance and repair services in respect of the No.1 – 4 desulfurization and denitrification facilities owned by Yangxi Electric (the “**Yangxi Facilities**”) prior to the completion of the acquisition of the Yangxi Facilities under the Cooperation Framework Agreement.

On 31 December 2016, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into an ultra-low emission upgrade project cooperation agreement (“**Upgrade Project Cooperation Agreement**”), under which Beijing Boqi agreed to construct “ultra-low emission” units to No. 1-2 desulfurization and denitrification facilities of the Yangxi Facilities for Yangxi Electric.

On 1 January 2017, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric further entered into a supplemental agreement solely to determine the pricing terms of the Yangxi Management Service Agreement (the “**Yangxi Service Pricing Agreement**”).

Due to an unexpected delay in the release of the mortgage on the Yangxi Facilities, the completion of the proposed acquisitions of the Yangxi Facilities under the Cooperation Framework Agreement was delayed, and it was agreed between Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric not to proceed with the proposed acquisitions of the Yangxi Facilities. Accordingly, on 28 August 2017, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (“**Yangxi Supplemental Agreement**”) under which, the proposed acquisitions of the Yangxi Facilities under the Cooperation Framework Agreement, were terminated.

LETTER FROM GRAM CAPITAL

On 28 August 2017, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into another supplemental agreement (the “**Yangxi Supplemental Management Service Agreement**”) to supersede and extend the term of the services under the Yangxi Management Services Agreement from 1 January 2017 to 30 September 2017 to a term from 1 January 2017 to 31 December 2025. Other provisions in relation to the services and ancillary services to be provided by Beijing Boqi under the Yangxi Management Services Agreement remain unchanged for the extended term.

On 8 March 2018, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (the “**March 2018 Supplemental Agreement**”) to determine the unit price in relation to the additional on-grid power generation based on the further quota for power generation acquired by Yangxi Electric.

On 20 July 2018, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into a supplemental agreement (the “**July 2018 Supplemental Agreement**”) to determine the price adjustment to the relevant fixed rates (inclusive of value-added tax) for the provision of O&M services, due to a tax relief enjoyed by Guangdong Huaxia Yangxi power plant, which is now shared with Beijing Boqi. For the avoidance of doubt, the relevant fixed rates (exclusive of value-added tax) remain unchanged.

Further, according to the July 2018 Supplemental Agreement, the parties to the July 2018 Supplemental Agreement confirmed that Beijing Boqi’s entitlements of the “ultra-low emission” subsidies in relation to all No. 1-4 facilities, is also subject to the same price adjustment arising from the tax relief to Guangdong Huaxia Yangxi power plant.

Based on the Notice on the Implementation of Support Policies for Ultra-low Emission Tariffs on Coal-fired Power Plant* (關於實行燃煤電廠超低排放電價支持政策有關問題的通告), Yangxi Electric is entitled to receive the “ultra-low emission” subsidy upon the completion of environmental protection acceptance and upon compliance with the relevant “ultra-low emission” standards. Under the Upgrade Project Cooperation Agreement and the 2018 Supplemental Agreements, Yangxi Electric is contractually obligated to pay to Beijing Boqi part of the relevant “ultra-low emission” subsidy that it receives. As at the Latest Practicable Date, Beijing Boqi has recovered all of the abovementioned construction costs of the Upgrade Units, by the “ultra-low emission” subsidy that it receives from Yangxi Electric under the Upgrade Project Cooperation Agreement.

In addition, after negotiation among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric on arm’s length, the parties entered into the 2020 Supplemental Agreement on 30 November 2020, pursuant to which, the parties agreed to amend and supplement certain terms in relation to pricing terms for the provision of O&M services and ancillary charges in accordance with the market-based pricing mechanism.

LETTER FROM GRAM CAPITAL

Reasons for and benefits of the Transactions

With reference to the Board Letter, in recent years, coal consumption and pollution emission standards have been significantly tightened. To comply with such stringent standards, and minimize operational risk while also minimizing the costs to be incurred, Yangxi Electric engaged Beijing Boqi, being a leading independent and recognized flue gas treatment integrated service provider, to be the sole desulfurization and denitrification service provider for its Guangdong Huaxia Yangxi power plant. Further, it is in the benefit of Yangxi Electric to retain only one desulfurization and denitrification service provider to the Yangxi Facilities for the purpose of minimizing costs and eliminating the need to manage a few different service providers with different points of contact and who may use different quality management systems.

Provision of desulfurization and denitrification services has been the Group's usual course of business and Beijing Boqi has earned numerous highly-recognized awards in the flue gas treatment industry, and having been already familiarized with the operations and facilities of Yangxi Electric as a result of provision of O&M services for Yangxi Facilities over the past years. By entering into No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, Beijing Boqi will leverage its relevant professional experience and strengths in the maintenance of the desulfurization and denitrification facilities, deliver its management experience and gain reasonable income and returns. The execution of No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement is in line with the Group's overall strategy and business focus of engaging in the maintenance of the desulfurization and denitrification facilities and will enhance its market presence in Guangdong province. The enhancement of the Group's competitive edge in its core business is in the interests of the Group as a whole.

We also considered following reasons and benefit of the Transactions:

The Acquisition

We noted from the Company's prospectus dated 28 February 2018 (the "**Prospectus**") that, pursuant to a cooperation framework agreement dated 20 May 2016 entered into between Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric (i.e. the Cooperation Framework Agreement), Beijing Boqi had agreed to acquire the Yangxi Facilities. Due to an unexpected delay in the release of the then mortgage of the Yangxi Facilities, such acquisitions were delayed and it was further agreed among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric that such acquisitions shall not be proceeded with. We understood from the Directors that the mortgage of No. 1-2 Yangxi Facilities had been released and thus the Company intends to materialise the acquisition of No. 1-2 Yangxi facilities through the Acquisition.

LETTER FROM GRAM CAPITAL

As detailed under the section headed “Information on the Group” above, the Group is mainly engaged in providing comprehensive and professional environmental management services in Mainland China with majority of its revenue derived from flue gas treatment business. Furthermore, we noted from the Prospectus that the Group commenced its flue gas treatment business in 2003.

The CCTs

The 2023 Supplemental Agreement

Upon completion of the Acquisition, the services provided by the Group to No. 1-2 Yangxi Facilities will change from “O&M services in respect of desulfurization and denitrification services” to “provision of operation service in relation to desulfurization and denitrification by utilising No. 1-2 Yangxi Facilities”.

According to The Implementation Plan for Deepening the Reform of the Feed-in Tariff Mechanism for Coal-fired Power Generation by Guangdong Development and Reform Commission (廣東省發展改革委關於深化燃煤發電上網電價形成機制改革的實施方案) dated 31 December 2019, with effect from 1 January 2020, benchmark on-grid tariffs of coal-fired power generation has been replaced by a market-based pricing mechanism which includes a “benchmark on-grid tariff” that sets at the same level as the benchmark on-grid tariff it replaces, and a “float” so that it can deviate up to 10% higher or 15% lower.

According to The Notice of the National Development and Reform Commission on Further Deepening the Market-oriented Reform of Coal-fired Power Generation Grid Electricity Prices (國家發展改革委關於進一步深化燃煤發電上網電價市場化改革的通知) with effect from 15 October 2021, the “float” on benchmark on-grid tariff was further extended from “10% higher or 15% lower” to “20% higher or 20% lower in principle”.

The revised pricing terms pursuant to the 2023 Supplemental Agreement limit the upper and lower floor of “floating” adjustment.

In addition, as advised by the Directors, there has been no transaction amount in respect of the “ultra-low emission” subsidy since 2018. The parties agreed on the price adjustment under a supplemental agreement dated 20 July 2018, and Beijing Boqi had recovered all the costs for the construction of upgrade units by the “ultra-low emission” subsidies received from Yangxi Electric under the Upgrade Project Cooperation Agreement, and Beijing Boqi has not incurred any fees and expenses in relation to the “ultra-low emission” upgrade project thereafter. In particular, as the ultra-low emission facilities are facilities ancillary to the desulfurization and denitrification environmental protection system, during the course of project operation and maintenance, there will be no additional ancillary charges paid by Beijing Boqi to Yangxi Electric. Therefore, (i) the parties need to re-negotiate the rate for “ultra-low emission” subsidy and its payment arrangement; and (ii) uncertainties remain in relevant commercial arrangements. After a long-term negotiation process, the parties agreed on the rate for “ultra-low emission” subsidy and payment arrangement. Furthermore, the proposed

LETTER FROM GRAM CAPITAL

amounts in respect of “ultra-low emission” operation service was not considered and included in the existing annual caps for the three years ending 31 December 2023 for Yangxi Agreements. Therefore, the parties entered into the 2023 Supplemental Agreement.

No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement; and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service

The Company was selected as services provider for the transactions contemplated under the No. 5-6 Yangxi Facilities Maintenance Service Agreement and No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service through tendering process. As advised by the Directors, the Group expected to record revenue from the transactions contemplated under the aforesaid agreements.

Furthermore, pursuant to the No. 5-6 Yangxi Facilities Maintenance Service Agreement, for projects of which the individual project price exceeds RMB50,000, Yangxi Electric will undergo separate tender process to seek service providers. As the threshold of No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement extends to higher amounts, the Group can be selected as service provider for individual project with price ranging from RMB50,000 to RMB100,000 without a separate tender procedure. Therefore, the Group may generate more revenue from such new arrangement.

In light of the above, we concur with the Directors that: (i) although the Acquisition is not conducted in the ordinary and usual course of business of the Group, the Acquisition is in the interests of the Company and the Shareholders as a whole; and (ii) the CCTs are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM GRAM CAPITAL

A. THE ACQUISITION

1. Principal terms of the Acquisition

Summarised below are the major terms of the Acquisition, details of which are set out under the section headed “II. NO. 1-2 YANGXI FACILITIES ASSET TRANSFER OF DESULFURIZATION AND DENITRIFICATION PROJECTS AGREEMENT” of the Board Letter.

- Date:** 27 October 2023
- Parties:** Beijing Boqi (as purchaser and concession service provider)
Guangdong Huaxia Electric (as site owner)
Yangxi Electric (as site owner and vendor)
- Subject matter:** (i) Beijing Boqi shall acquire from Yangxi Electric No. 1-2 Yangxi Facilities (except for land)
- (ii) Upon completion of the Acquisition (i.e., as set out in subparagraph (i) above), the O&M services in relation to No. 1-2 Yangxi Facilities provided by Beijing Boqi under the Yangxi Agreements shall be terminated and Beijing Boqi shall be responsible for the operation, maintenance, and management of the acquired assets
- Despite that the No. 1-2 Yangxi Facilities are situated on the land, which was owned by Yangxi Electric and will not be transferred to the Group, Beijing Boqi could use the land for free during the existence of the No. 1-2 Yangxi Facilities (to be owned by Beijing Boqi) pursuant to the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization And Denitrification Projects Agreement. Therefore, we consider such arrangement is beneficial to the Group.
- Effect:** No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement shall become established after signing and sealing among Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric and become effective on the day of approval by the Independent Shareholders at the EGM.

LETTER FROM GRAM CAPITAL

Consideration and basis for the Acquisition

The consideration for the Acquisition was approximately RMB154.26 million (excluding tax, being approximately RMB174.31 million with tax included), which was determined by the parties after arm's length negotiation with reference to the asset value of No. 1-2 Yangxi Facilities of approximately RMB159.03 million (excluding tax) as at 30 September 2023 (the "Valuation") appraised by the Valuer.

Valuation

To assess the fairness and reasonableness of the consideration of the Acquisition, we obtained and reviewed the Valuation Report. We noted that (i) the Valuation Report of No. 1-2 Yangxi Facilities was prepared by the Valuer; and (ii) the market value of the No. 1-2 Yangxi Facilities as at the Valuation Date was approximately RMB159.03 million, concluded by using cost approach.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the valuation of the No. 1-2 Yangxi Facilities. From the mandate letters and other relevant information provided by the Valuer, and based on our interview with the Valuer, we were satisfied with the terms of engagement of the Valuer as well as its qualification for the preparation of the Valuation Report. The Valuer also confirmed that they are independent to the Group, Guangdong Huaxia Electric and Yangxi Electric.

The Valuation Report was prepared by the Valuer by adopting cost approach. As confirmed by the Valuer, the Valuer has considered the three generally accepted approaches, namely market approach, income approach and cost approach. Upon our further enquiry with the Valuer, we understood that:

- market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect the condition and utility of the appraised assets relative to the market comparative. As it is difficult to find comparable assets due to lack of active secondary market due to the custom-built and in-house design nature of the No. 1-2 Yangxi Facilities, rather than standard manufactured, market approach was considered and excluded by the Valuer.
- income approach is the present worth of the future economic benefits of ownership and is generally applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and intangible assets. The Valuer considered and excluded income approach due to the lack of financial data for the Valuer to conduct the valuation of No. 1-2 Yangxi Facilities using income approach.
- cost approach considers the cost to reproduce or replace in new condition the assets in accordance with current market prices for similar assets or by making reference to the purchase price of similar assets, with allowance for accrued depreciation as

LETTER FROM GRAM CAPITAL

evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic cause. The Valuer considered and adopted cost approach as the No. 1-2 Yangxi Facilities are assets without active secondary market and relevant information on replacement or reproduction costs, current conditions, utility, age, wear and tear, past and present maintenance policy, rebuilding history and current utilisation are available for the Valuer to concluded the valuation of No. 1-2 Yangxi Facilities.

As confirmed by the Valuer, the cost approach is one of the commonly adopted approaches for valuation of assets and is also consistent with normal market practice.

Having considered that (i) the Valuation Report was prepared by the Valuer in accordance with various requirements/standards; (ii) the Valuer also considered income approach and market approach before concluding with the use of cost approach; and (iii) the aforesaid reasons for not adopting income approach and market approach, we concur with the Valuer on the adoption of cost approach and did not consider other approaches to assess the valuation of No. 1-2 Yangxi Facilities.

Under cost approach, the Valuer categorised No.1-2 Yangxi Facilities into the following categories: (1) desulfurization and denitrification; (2) electrical facilities; (3) thermal control facilities ((1) to (3) are collectively referred to as the “**Machineries**”); and (4) comprehensive facilities (the “**Structures**”).

We noted that:

- (1) the net book value of No. 1-2 Yangxi Facilities was approximately RMB159.03 million, which approximates to the Valuation; and
- (2) the market value of each of (1) desulfurization and denitrification; (2) electrical facilities; and (3) thermal control facilities, as at the Valuation Date represented depreciation to their respective net book values; and
- (3) the market value of comprehensive facilities as at the Valuation Date represented an appreciation to its net book value.

For our due diligence purpose, we obtained:

- (1) a breakdown of each asset under No. 1-2 Yangxi Facilities, which sets out details of each asset such as original acquisition cost, date of first usage, expected and remaining useful life, net book value, etc. We noted that the market value of each asset was calculated based on its replacement costs (under new condition), composite newness rate, functional obsolescence rate and economic obsolescence rate (where applicable); and

LETTER FROM GRAM CAPITAL

- (2) illustrations for the valuation process of two individual assets for each category of assets under No. 1-2 Yangxi Facilities (illustrations for six individual assets for Machinery and two individual assets for Structures in total) (the “**Illustrations**”).

According to the Illustrations, we noted that:

- for Machineries which are still available from the original manufacturers, the replacement cost of such assets was determined with reference to (a) their latest quoted price; and (b) relevant costs and expenses such as transportation costs, installation costs, foundation costs and other expenses;
- for Machineries which are unavailable from the original manufacturers, the replacement cost of such assets was determined with reference to (a) their respective original acquisition costs; and (b) the changes in the PRC’s producer price index which are relevant to each individual assets since the year of their respective date of first usage as quoted from the statistics published by the National Bureau of Statistics of the PRC;
- for Structures, the replacement cost of such assets was determined with reference to (a) their respective original construction costs; and (b) the changes in the fixed assets investment price index of Guangdong Province and the changes in the PRC’s producer price index which are relevant to each individual assets since the year of their respective date of first usage as published by the National Bureau of Statistics of the PRC;
- the composite newness rate of each asset was determined with reference to its remaining useful life and its newness rate based on the Valuer’s physical inspection;
- functional obsolescence represented the impairment of the functional capacity or efficiency caused by inherent factors such as changes in technologies, discovery of new and improved materials, improved manufacturing processes, production rates; and
- economic obsolescence represents the loss in value caused by external factors such as increased cost of raw materials, labour or utilities, reduced demand for the product, increased competition, changes in environmental and other regulation.

In relation to the Illustrations, we performed the following:

- for Machineries which are still available from the original manufacturers, we cross-checked their replacement costs adopted in the Illustrations with price of the relevant Machineries quoted on mepprice.com (機電產品價格信息網) (according to the website of mepprice.com, mepprice.com is managed by the China Machinery Industry Federation and sponsored by the Machinery Industry Information Research Institute. It adheres to the advantages of publishing a series of mechanical and

LETTER FROM GRAM CAPITAL

electrical product quotation manuals and built a professional website for the appraisal industry to provide mechanical and electrical product price information and related services for appraisal companies, which we consider to be an appropriate source of information) to verify their consistency; and

- for Machineries which are unavailable from the original manufacturers and for Structures, we obtained the original purchase invoices (i.e. 5 sets of original purchase invoices in total) to verify the original acquisition costs and their respective year of first usage. As the purchase invoices represents and covers all of the Machineries which are unavailable from the original manufacturers and Structures under the Illustration, we consider the number of original purchase invoices obtained is sufficient for us to verify the original acquisition costs.

We also enquired into the Valuer and understood that the Valuer had also conducted verification works such as inspecting the original purchase invoice, purchase contracts and construction contracts to verify the original acquisition costs and their respective year of first usage.

In light of the above and during our discussion with the Valuer, we have not identified any major factor which caused us to doubt the reasonableness of the assumption used in the Valuation.

As the consideration for the Acquisition represents a slight discount of approximately 3% to the market value of No. 1-2 Yangxi Facilities, we are of the view that the consideration for the Acquisition is fair and reasonable.

Payment terms and completion

With reference to the Board Letter, Beijing Boqi shall pay the consideration to Yangxi Electric in the following manner:

- (i) 50% of the consideration or approximately RMB87.15 million (including tax) will be settled by cash within 15 Business Days after the date of the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement; and
- (ii) the remaining 50% of the consideration or approximately RMB87.15 million (including tax) will be settled within 15 Business Days after the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement becomes effective.

In the event that the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement cannot become effective, Yangxi Electric shall refund all previously settled consideration within 15 Business Days after receiving the written notice from Beijing Boqi.

LETTER FROM GRAM CAPITAL

Completion for the Acquisition

Completion shall take place when Yangxi Electric receives the entire consideration and completes the asset delivery procedures in accordance with No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement. Upon completion, Beijing Boqi shall own all the rights and interest (except for land) in No. 1-2 Yangxi Facilities.

Future disposal arrangement

If Beijing Boqi intends to dispose No. 1-2 Yangxi Facilities after completion of the Acquisition, it must obtain the written consent of Yangxi Electric.

Having considered that No. 1-2 Yangxi Facilities is essential for Yangxi Electric as the desulfurization and denitrification from No. 1-2 Yangxi Facilities is a necessary step during the process of power generation by Yangxi Electric, we consider such arrangement is commercially reasonable.

Our conclusion

Having reviewed and considered the terms of the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement in particular the key terms as listed above (including the consideration being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Acquisition are on normal commercial terms and are fair and reasonable.

B. THE CCTS

Principal terms of the CCTs

B.1 No. 1-2 Yangxi Facilities Operation Service

Set out below are the principal terms of the transactions contemplated under No. 1-2 Yangxi Facilities Operation Service, details of which are set out under the section headed “No. 1-2 Yangxi Facilities Operation Service” of the Board Letter.

| | |
|-----------------|--|
| Date: | 27 October 2023 |
| Parties: | Beijing Boqi (as operation service provider) Guangdong Huaxia Electric (as site owner) Yangxi Electric (as site owner) |

LETTER FROM GRAM CAPITAL

Subject matter

Beijing Boqi shall be responsible for provision of operation service in relation to desulfurization and denitrification to ensure that Yangxi Electric's production and operation can meet the national standards and relevant requirements, by utilising No. 1-2 Yangxi Facilities, scope of which shall include (among others):

- (i) determining the inlet parameter ranges of sulfur dioxide in the desulfurization system and nitrogen oxides in the denitrification system according to applicable laws, regulations and standards, project design conditions and current actual operating conditions;
- (ii) system operation, daily maintenance, overhaul service, and gypsum and desulfurization and denitrification waste treatment and other related work;
- (iii) coordinating with relevant government departments and be responsible for relevant costs;
- (iv) ensuring the safe and stable operation of No. 1-2 Yangxi Facilities and meeting the operation needs of the relevant power plant;
- (v) subject to compliance with the inlet parameter requirements, ensuring the relevant pollutant discharge indicators comply with the applicable laws, regulations and standards, and ensuring the total amount of pollutant discharge is not higher than the project indicators as issued by the relevant PRC government department; and
- (vi) subject to compliance with the inlet parameter requirements, carrying out relevant upgrades and technical transformation to meet the latest requirements of applicable laws, regulations and standards.

Term for No. 1-2 Yangxi Facilities Operation Service

No. 1-2 Yangxi Facilities Operation Service shall have a term until 31 December 2039.

In assessing the reasons for the term of No. 1-2 Yangxi Facilities Operation to be longer than three years, we considered the following factors:

- (i) as advised by the Directors, the first commissioning time for the No. 1-2 Yangxi Facilities was September 2009 and December 2009 respectively. According to Code for Design of Fossil Fired Power Plant promulgated by Ministry of Housing and Urban-Rural Development of the PRC in 2011, the design life of the process system (工藝系統) for a thermal power plant should be 30 years. The term of No. 1-2 Yangxi Facilities Operation is therefore in line with the end of the design life of No. 1-2 Yangxi Facilities;

LETTER FROM GRAM CAPITAL

- (ii) as the provision of No. 1-2 Yangxi Facilities Operation Service are revenue nature of the Group and the Group expects to record gross profit from the No. 1-2 Yangxi Facilities Operation Service, it is in the benefit of the Group to secure No. 1-2 Yangxi Facilities Operation Service for as long as possible; and
- (iii) Beijing Boqi is also responsible for the operational charges used in the services provided as well as treatment of waste created during the provision of No. 1-2 Yangxi Facilities Operation Service.

In considering whether it is a normal business practice for agreements of similar nature with the No. 1-2 Yangxi Facilities Operation Service to have a term of such duration, we noted that the Group also entered into agreements with independent third parties regarding the provision of O&M services (note: the Group's works for the No. 1-2 Yangxi Facilities Operation Service is similar to the Group's provision of O&M services), with duration of more than three years.

Taking into account of the above, we confirm that the duration of the provision of No. 1-2 Yangxi Facilities Operation Service, which is longer than three years, is required and it is normal business practice for arrangements of this type to be of such duration.

Service fees

The service fees in respect of No. 1-2 Yangxi Facilities Operation Service are calculated in the following manners:

(i) Desulfurization and denitrification subsidies

The service fees in respect of desulfurization and denitrification subsidies shall be calculated by multiplying on-grid electricity generation (kWh) to be generated by No. 1-2 Yangxi power generating units by RMB0.025 per kWh, being the rate as mutually agreed by the parties after considering the "benchmark desulfurization and denitrification subsidies". Such rate shall be adjusted according to changes in "benchmark desulfurization and denitrification subsidies". According to Determination of Desulfurization Price of Coal-Fired Generating Units and Operation of Desulfurization Facilities (燃煤發電機組脫硫電價及脫硫設施運行管理辦法) and the Notice on Further Diverting the Contradiction of Environmental Protection Electricity Prices (Development and Reform Price [2014] No. 1908 (關於進一步疏導環保電價矛盾的通知(發改價格[2014]1908號)), the currently applicable "benchmark desulfurization subsidies" is RMB0.015 per kWh (tax included) and the currently applicable "benchmark denitrification subsidies" is RMB0.01 per kWh (tax included).

LETTER FROM GRAM CAPITAL

In addition, the service fees in respect of desulfurization and denitrification subsidies shall be subject to a “floating” adjustment ranging from 10% premium to 10% discount (i.e. $\pm 10\%$) with reference to Yangxi Electric’s annual profits based on its audited annual financial statements in the following manner:

- (a) if Yangxi Electric records net profits for its No. 1-4 units based on its annual audit report, Beijing Boqi shall be entitled to the “floating” adjustment ranging from 10% premium to 10% discount based on the annual settlement in respect of desulfurization and denitrification subsidies; and
- (b) if Yangxi Electric records net loss for its No. 1-4 units based on its annual audit report, Beijing Boqi shall be entitled to the “floating” adjustment in the form of discount only of up to 10% based on the annual settlement in respect of desulfurization and denitrification subsidies.

(ii) *“Ultra-low emission” operation service fees*

The service fees in respect of “ultra-low emission” operation shall be equivalent to the actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi plus a premium of 10%, as well as plus value-added tax based on the invoice issued by Beijing Boqi.

The actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi comprises fixed cost and variable cost. Fixed cost shall include labor cost (including management cost), spare parts cost and auxiliary material cost which is adjusted according to the Producer Price Index (PPI) of Guangdong Province the year before. The annual labour cost shall be RMB150,500 and the annual spare parts cost shall be RMB250,000. Variable cost shall include electricity charges and expenses in relation to limestone, liquid ammonia, gypsum and catalyst and is calculated by multiplying the consumption per unit of on-grid electricity generation by the applicable unit price based on the unified bidding and then further multiplied by actual on-grid electricity generation.

Our analyses:

As advised by the Directors, for desulfurization and denitrification subsidies, the Group’s O&M services mainly include the provision of operation service and regular maintenance service for desulfurization and denitrification facilities and dust removal facilities owned by the Group’s clients. The Group primarily provide desulfurization and denitrification operation services and dust removal services to coal-fired power plants as a contractor, where the Group’s work scope includes the full operation, testing and repair, upgrading and maintenance of flue gas treatment system/facilities owned by those coal-fired power plants. Revenue generated from the operation of such projects consists of service fees charged at a fixed contract price or by reference to on-grid tariff subsidies on a per kilowatt hour basis for power generated by the coal-fired power plant to which the project relates.

LETTER FROM GRAM CAPITAL

The pricing policy under the No. 1-2 Yangxi Facilities Operation Service follows the second pricing policy as mentioned above (i.e. by reference to on-grid tariff subsidies on a per kilowatt hour basis for power generated). Based on our independent research with criteria that companies provided desulfurization and denitrification services to their connected persons, we noted two companies which met the aforesaid criteria and also adopted same pricing for the provision of desulfurization and denitrification services to their connected persons.

For “Ultra-low emission” operation service fees, based on our understanding, (a) the pricing policy for “ultra-low emission” operation service fees is different from the existing pricing policy for such services pursuant to the Yangxi Agreements; and (b) the pricing policy for “ultra-low emission” operation service is on a cost plus model (i.e. actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi plus a premium of 10%).

We discussed with the Directors and understood that the Group also provided “ultra-low emission” operation services to independent third party clients of the Group. To assess the fairness and reasonableness of service fees in respect of “ultra-low emission” operation services, we requested the Group to provide costs and margins of “ultra-low emission” services to independent third party clients of the Group. However, as advised by the Directors, it would be impracticable for the Company to only provide such information as such services are part of desulfurization and denitrification services (i.e. ultra-low emissions refer that the air pollutants emission concentration (i.e. dust, SO₂ and NO_x) of coal-fired power generating units basically meet the requirements of gas generating units limits) provided to independent third party clients. Given the aforesaid, we requested the Directors to provide costs and margins for O&M services (including desulfurization, denitrification services and “ultra-low emission” operation services) and costs and margins for the No. 1-2 Yangxi Facilities Operation Service based on historical power generation volume and relevant cost of the Group for provision such services.

Furthermore, as mentioned above, the service fees in respect of desulfurization and denitrification subsidies shall be subject to a “floating” adjustment ranging from 10% premium to 10% discount (i.e. ±10%) with reference to Yangxi Electric’s annual profits. In the worst scenario, the Group’s service fees in respect of desulfurization and denitrification subsidies should be subject to a 10% discount.

Despite that we were not aware of similar arrangement by other companies, we assessed the fairness and reasonableness of the pricing terms under worst scenario, i.e. the estimated costs and margins for the No. 1-2 Yangxi Facilities Operation Services was calculated with a 10% discount on service fees.

According to the results as calculated by the Company, we noted that the implied gross profit margin for the No. 1-2 Yangxi Facilities Operation Service is not lower than those offered by the Group to independent third parties for similar services.

Based on the above, we are of the view that the bases for determining service fees in respect of No. 1-2 Yangxi Facilities Operation Service are fair and reasonable.

LETTER FROM GRAM CAPITAL

(iii) Ancillary charges

Under the No. 1-2 Yangxi Facilities Operation Service, Beijing Boqi shall pay the ancillary charges to Yangxi Electric on a monthly basis and within 90 days from the first day of the following month. The ancillary charges refer to operation charges, which include water, electricity, vapor, gas, environmental protection penalty (including confiscated environmental electricity price), operation assessment and pollution tax and office and staff quarter charges and other relevant operational charges, which shall be calculated by multiplying the actual consumption by the applicable unit price stipulated in No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement.

Pursuant to the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the price of electricity included in the Ancillary Charges (the “**Proposed Electricity Price in Ancillary Charges**”) shall be determined by the following formula:

$$E \times (1-F)$$

Where:

E = Negotiated fixed rate (per kWh) for electricity price in Ancillary Charges

$$F = (C-G)/C$$

Where:

C = “benchmark on-grid tariff” published by Guangdong Development and Reform Commission

G = weighted average on-grid tariff calculated based on on-grid power generated by No. 1-4 facilities, which is calculated by $\sum(\text{Each power component of on-grid electricity sales of No. 1-4 facilities} \times \text{Corresponding tariff (including environmental subsidies)}) / \text{On-grid electricity sales of No. 1-4 facilities}$

According to the above formula:

$$\text{The Proposed Electricity Price in Ancillary Charges} = E \times (1 - (C-G)/C) \quad (I)$$

We further simplified the formula (I) for the ease of understanding:

$$\begin{aligned} \text{The Proposed Electricity Price in Ancillary Charges} &= E \times (C/C - (C-G)/C) \\ &= E \times ((C - C + G)/C) \\ &= E \times (G/C) \\ &= \text{Negotiated fixed rate (per kWh)} \\ &\quad \text{for electricity price in Ancillary} \\ &\quad \text{Charges} \times (\text{weighted average on-} \\ &\quad \text{grid tariff calculated based on} \\ &\quad \text{on-grid power generated by No.} \\ &\quad \text{1-4 facilities/benchmark on-grid} \\ &\quad \text{tariff)} \end{aligned}$$

LETTER FROM GRAM CAPITAL

Based on the above simplified formula and having considered the following factors:

- (i) the adjustment of electricity price in Ancillary Charges will be in compliance with the change of portion in actual on-grid tariff of Yangxi Electric (i.e. weighted average on-grid tariff calculated based on on-grid power generated by No. 1-4 facilities) as compared to benchmark on-grid tariff; and
- (ii) as confirmed by the Directors, the weighted average on-grid tariff represented the average price that Yangxi Electric sells to all its clients,

we are of the view that the basis for determination of Proposed Electricity Price in Ancillary Charges to be reasonable.

B.2 2023 Supplemental Agreement

Set out below are the principal terms of the transactions contemplated under the 2023 Supplemental Agreement, details of which are set out under the section headed “2023 Supplemental Agreement” of the Board Letter.

- Date:** 27 October 2023
- Parties:** Beijing Boqi (as operation service provider)
Guangdong Huaxia Electric (as site owner)
Yangxi Electric (as site owner)
- Revised term:** Pursuant to the 2023 Supplemental Agreement, the parties agreed (i) to terminate the O&M operation of No. 1-2 Yangxi Facilities from the completion date of the Acquisition; and (ii) to extend the No. 3-4 Yangxi Facilities O&M operation to 31 December 2028.

Our analyses

Pursuant to the Yangxi Agreements, the term shall be from 1 January 2017 to 31 December 2025. As confirmed by the Directors, upon completion of the Acquisition, Beijing Boqi will commence to provide operation service in relation to desulfurization and denitrification by utilising No. 1-2 Yangxi Facilities to Yangxi Electric instead of provision of O&M operation services in relation to the desulfurization and denitrification systems of No. 1-2 Yangxi Facilities.

LETTER FROM GRAM CAPITAL

As mentioned in the sub-section headed “Yangxi Project” above, on 20 May 2016, Beijing Boqi entered into the Cooperation Framework Agreement with Guangdong Huaxia Electric and Yangxi Electric, pursuant to which Beijing Boqi agreed to acquire, among other things, No. 3-4 Yangxi Facilities. Such facilities were mortgaged by Yangxi Electric for securing certain borrowings made by Yangxi Electric from a number of banks in the PRC. On 31 December 2016, Beijing Boqi, Guangdong Huaxia Electric and Yangxi Electric entered into the Yangxi Management Service Agreement in relation to the provision of operation, daily maintenance and repair services in respect of the Yangxi Facilities prior to the completion of the acquisition of the Yangxi Facilities. As advised by the Directors, the completion of acquisition of No. 3-4 Yangxi Facilities will be conditional, among other things, the release of the mortgage on No. 3-4 Yangxi Facilities, which are expected to take place by December 2028.

Based on the above, we are of the view that the revised term of the Yangxi Agreements (as supplemented by the 2023 Supplemental Agreement) are on normal commercial terms.

In assessing the reasons for the term of Yangxi Agreements (as supplemented by the 2023 Supplemental Agreement) to be longer than three years, we considered the following factors:

- (i) as the general maintenance cycle for the Yangxi Facilities is every four to five years, it is necessary for the term of such operation and maintenance agreements to be exceeding three years as it will not be in the benefit of either party to enter into a term that is shorter than the general maintenance cycle;
- (ii) it is in the commercial benefit of power plants to enter into longer operation and maintenance agreements due to the technical requirements and emission standards imposed by the PRC government to ensure compliance and certainty in their operations and minimizing their operational risk;
- (iii) as the provision of O&M services are revenue nature of the Group and the Group expects to record gross profit from the transactions contemplated under the Yangxi Agreements, it is in the benefit of the Group to secure Yangxi Agreements for as long as possible; and
- (iv) Beijing Boqi is also responsible for the operational charges used in the services provided as well as treatment of waste created during the provision of O&M services.

As mentioned above, the Group also entered into agreements with independent third parties regarding the provision of O&M services, with duration of more than three years.

Taking into account of the above, we confirm that, the term of the Yangxi Agreements (as supplemented by the 2023 Supplemental Agreement) being longer than three years is necessary and it is a normal business practice.

LETTER FROM GRAM CAPITAL

Revised service fees

On the premise of the 2023 Supplemental Agreement becoming effective, the pricing terms will be adjusted retrospectively (without interest) from 1 January 2023, which include service fees for (i) No. 1-2 Yangxi Facilities from 1 January 2023 to the completion date of the Acquisition; and (ii) No. 3-4 Yangxi Facilities from 1 January 2023 to 31 December 2028, in the following manners:

(i) Desulfurization and denitrification subsidies

The service fees in respect of desulfurization and denitrification subsidies shall be calculated by multiplying on-grid electricity generation (kWh) to be generated by No. 1-4 Yangxi power generating units (as the case may be) by RMB0.02143 per kWh, being the fixed rate as mutually agreed by the parties after considering the “benchmark desulfurization and denitrification subsidies”. The service fees in respect of desulfurization and denitrification subsidies shall be subject to a “floating” adjustment ranging from 10% premium to 10% discount (i.e. $\pm 10\%$) with reference to Yangxi Electric’s annual profits based on its audited annual financial statements in the following manner:

- (a) if Yangxi Electric records net profits for its No. 1-4 units based on its annual audit report, Beijing Boqi shall be entitled to the “floating” adjustment ranging from 10% premium to 10% discount based on the annual settlement in respect of desulfurization and denitrification subsidies; and
- (b) if Yangxi Electric records net loss for its No. 1-4 units based on its annual audit report, Beijing Boqi shall be entitled to the “floating” adjustment in the form of discount only of up to 10% based on the annual settlement in respect of desulfurization and denitrification subsidies.

(ii) “Ultra-low emission” operation service fees

The service fees in respect of “ultra-low emission” operation shall be equivalent to the actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi plus a premium of 10%, as well as plus value-added tax based on the invoice issued by Beijing Boqi.

The actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi comprises fixed cost and variable cost. Fixed cost shall include labor cost (including management cost), spare parts cost, and auxiliary material cost and shall consider an increase which is adjusted according to the PPI of Guangdong Province the year before. The annual labour cost shall be RMB150,500 and the annual spare parts cost and auxiliary material cost shall be RMB250,000 for No. 3-4 Yangxi Facilities after completion of the Acquisition. Variable cost shall include electricity charges and expenses in relation to limestone, liquid ammonia, gypsum and catalyst and is calculated by multiplying the consumption per unit of on-grid electricity generation by the applicable unit price based on the unified bidding and then further multiplied by actual on-grid electricity generation.

LETTER FROM GRAM CAPITAL

Our analyses:

In respect of the desulfurization and denitrification subsidies, according to the Yangxi Agreements (after taking into account the revised service fees as mentioned above), the rate for provision of operation, daily maintenance and repair services in respect of the No. 1-4 Yangxi Facilities owned by Yangxi Electric (the “**Proposed D&D Fees**”) shall be calculated by the following formula:

$$A \times (1-B)$$

Where:

A = Negotiated fixed rate (per kWh) for provision of O&M services (the “**Negotiated Fixed Rate**”), being RMB0.02143 per kWh.

B = (C-D)/C, B will be ranging from 10% premium to 10% discount (i.e. $\pm 10\%$)

Where:

C = “benchmark on-grid tariff” published by Guangdong Development and Reform Commission. According to the Implementation Plan for Deepening the Reform of the Feed-in Tariff Mechanism for Coal-fired Power Generation by Guangdong Development and Reform Commission, the currently applicable “benchmark on-grid tariff” in Guangdong Province is RMB0.453/kWh. Given that the “benchmark on-grid tariff” is determined and promulgated by the relevant government authorities, the frequency of renewal is uncertain

D = weighted average on-grid tariff based on on-grid power of single unit, which is calculated by $\sum(\text{Each power component of on-grid electricity sales of the single unit} \times \text{Corresponding tariff (including environmental subsidies)}) / \text{On-grid electricity sales of the single unit}$

According to the above formula:

$$\text{The Proposed D\&D Fees} = A \times (1 - (C-D)/C) \quad (\text{II})$$

We further simplified the formula (II) for the ease of understanding:

$$\begin{aligned} \text{The Proposed D\&D Fees} &= A \times (C/C - (C-D)/C) \\ &= A \times ((C - C + D)/C) \\ &= A \times (D/C) \\ &= \text{Negotiated Fixed Rate} \times (\text{weighted average on-grid tariff} \\ &\quad \text{based on on-grid power of single unit/benchmark on-grid} \\ &\quad \text{tariff}) \end{aligned}$$

LETTER FROM GRAM CAPITAL

In respect of the “ultra-low emission” operation service fees, based on our understanding, (i) the pricing policy for “ultra-low emission” operation service fees is different from the existing pricing policy for such services pursuant to the Yangxi Agreements; and (ii) the pricing policy for “ultra-low emission” operation service is on a cost plus model (i.e. actual operation and maintenance costs (excluding tax) incurred by Beijing Boqi plus a premium of 10%).

As mentioned above, we obtained from the Company the costs and margins for O&M services for No. 1-4 Yangxi Facilities (based on historical power generation volume and relevant cost of the Group for provision such services) as it would be impracticable for the Company to provide only costs and margins for “ultra-low emission” services given that such services are part of desulfurization and denitrification services.

Furthermore, as mentioned above, the service fees in respect of desulfurization and denitrification subsidies shall be subject to a “floating” adjustment ranging from 10% premium to 10% discount (i.e. $\pm 10\%$) with reference to Yangxi Electric’s annual profits. In the worst scenario, the Group’s service fees in respect of desulfurization and denitrification subsidies should be subject to a 10% discount. To assess the fairness and reasonableness of the pricing terms under worst scenario, the estimated costs and margins for O&M services for No. 1-4 Yangxi Facilities were calculated with a 10% discount on service fees.

According to the results as calculated by the Company, we noted that the implied gross profit margins for the O&M services for No. 1-4 Yangxi Facilities and No. 3-4 Yangxi Facilities fell within the gross profit margin range of projects in respect of similar services provided by the Group to independent third parties, and were above the median.

Based on the above simplified formula and having considered the following factors:

- (i) the adjustment of Negotiated Fixed Rate will be in compliance with the change of portion in actual on-grid tariff of Yangxi Electric (i.e. weighted average on-grid tariff based on on-grid power of single unit) as compared to benchmark on-grid tariff;
- (ii) the weighted average on-grid tariff represented the average price that Yangxi Electric sells to all its clients;
- (iii) according to The Implementation Plan for Deepening the Reform of the Feed-in Tariff Mechanism for Coal-fired Power Generation by Guangdong Development and Reform Commission (廣東省發展改革委關於深化燃煤發電上網電價形成機制改革的實施方案) dated 31 December 2019, with effect from 1 January 2020, benchmark on-grid tariffs of coal-fired power generation has been replaced by a market-based pricing mechanism which includes a “benchmark on-grid tariff” that sets at the same level as the benchmark on-grid tariff it replaces, and a “float” so that it can deviate up to 10% higher or 15% lower.

LETTER FROM GRAM CAPITAL

According to The Notice of the National Development and Reform Commission on Further Deepening the Market-oriented Reform of Coal-fired Power Generation Grid Electricity Prices (國家發展改革委關於進一步深化燃煤發電上網電價市場化改革的通知) with effect from 15 October 2021, the “float” on benchmark on-grid tariff was further extended from “10% higher or 15% lower” to “20% higher or 20% lower in principle”.

The revised pricing terms pursuant to the 2023 Supplemental Agreement limit the upper and lower floor of the “floating” adjustment; and

- (iv) the implied gross profit margins for the O&M services for No. 1-4 Yangxi Facilities and No. 3-4 Yangxi Facilities fell within the the gross profit margin of projects in respect of similar services provided by the Group to independent third parties, and were above the median,

we are of the view that the bases for determining service fees in respect of the abovementioned O&M services are fair and reasonable.

(iii) Ancillary charges

Under the Yangxi Agreements, Beijing Boqi shall pay the ancillary charges to Yangxi Electric before the 10th day of each month, including water, electricity, vapor, gas, environmental protection penalty and pollution tax fees and other relevant operational charges. Terms in relation to ancillary charges were not revised by the 2023 Supplemental Agreement and thus, shall remain unchanged.

Pursuant to the Yangxi Agreements, the price of electricity included in the Ancillary Charges (the “**Proposed Electricity Price in Ancillary Charges**”) shall be determined by the following formula:

$$E \times (1-F)$$

Where:

E = Negotiated fixed rate (per kWh) for electricity price in Ancillary Charges

$$F = (C-G)/C$$

Where:

C = “benchmark on-grid tariff” published by Guangdong Development and Reform Commission

G = weighted average on-grid tariff calculated based on on-grid power generated by No. 1-4 facilities, which is calculated by $\sum(\text{Each power component of on-grid electricity sales of No. 1-4 facilities} \times \text{Corresponding tariff (including environmental subsidies)}) / \text{On-grid electricity sales of No. 1-4 facilities}$

LETTER FROM GRAM CAPITAL

The price of electricity included in the Ancillary Charges pursuant to the Yangxi Agreements is the same as that pursuant to the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement. Please refer to our analyses as contained in the sub-section headed “Revised service fees” in the section headed “B.2 2023 Supplemental Agreement” above.

B.3 No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement

Set out below are the principal terms of the transactions contemplated under the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement, details of which are set out under the section headed “No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement” of the Board Letter.

Parties: Beijing Boqi Yangxi Branch and Yangxi Electric

Subject matter: To revise the total service fee so as to cover (i) the projects of which the individual project price does not exceed RMB50,000; and (ii) the projects of which the individual project price exceeds RMB50,000 but less than RMB100,000.

For projects of which the individual project price exceeds RMB100,000, Yangxi Electric will undergo separate tender process to seek service providers.

Our analyses

Pursuant to the No. 5-6 Yangxi Facilities Maintenance Service Agreement, the original total service fee (i.e. RMB33,920,000) covers the projects of which the individual project price does not exceed RMB50,000. For projects of which the individual project price exceeds RMB50,000, Yangxi Electric will undergo separate tender process to seek service providers.

Based on the revised term of subject matter, as more projects will be covered without separate tender process (through which, the Group may or may not be selected as a service provider based on original arrangement), the Group (as existing service provider) will benefit from such arrangement.

Revised service fee

Subject to adjustment that may be made in accordance with the No. 5-6 Yangxi Facilities Maintenance Service Agreement, the total service fee is increased from RMB33,920,000 to RMB35,920,000. The increase in total tentative service fee is RMB2,000,000.

LETTER FROM GRAM CAPITAL

Pursuant to the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement, for the projects of which the individual project price exceeds RMB50,000 but less than RMB100,000, Beijing Boqi Yangxi Branch will prepare budget for such project in accordance with governmental documents or industrial standards.

The final price will be audited by an engineering cost consulting company engaged by Yangxi Electric.

In addition, we also noted that Yangxi Electric entered a supplemental agreement with an independent third party for the same arrangement for their maintenance services project to cover the projects of which the individual project price exceeds RMB50,000 but less than RMB100,000, with additional total tentative service fee of RMB2,000,000, being the same as that under the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement.

Based on the above, we are of the view that the basis for determining the revised service fee is fair and reasonable.

Term

Pursuant to the No. 5-6 Yangxi Facilities Maintenance Service Agreement, the term of the agreement is from 1 January 2022 to 31 August 2027.

In assessing the reasons for the duration of the No. 5-6 Yangxi Facilities Maintenance Service Agreement to be longer than three years, we have considered the following factors:

- As advised by the Directors, Yangxi Electric selected services provider for the transactions contemplated under the No. 5-6 Yangxi Facilities Maintenance Service Agreement by way of tendering procedures. According to the tendering document, which applied to all participants, the required duration of maintenance services and the template maintenance service agreement (being part of the tendering document) were approximately six years. Therefore, it would be unduly burdensome and would add unnecessary administration costs for entering into maintenance services agreements with duration of not more than three years as the duration of the maintenance services is approximately six years.
- It is commercially beneficial for power plants operators to enter into longer operation and maintenance agreements due to the technical requirements and emission standards imposed by the PRC government to ensure compliance and certainty in their operations and minimization of their operational risk.

As mentioned above, the Group also entered into agreements with independent third parties regarding the provision of O&M services, with duration of more than three years.

LETTER FROM GRAM CAPITAL

Taking into account of the above, we confirm that the duration of the No. 5-6 Yangxi Facilities Maintenance Service Agreement, which is longer than three years, is required and it is normal business practice for agreements of this type to be of such duration.

B.4 No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement

Set out below are the principal terms of the transactions contemplated under the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, details of which are set out under the section headed “No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement” of the Board Letter.

| | |
|------------------------|---|
| Parties: | Beijing Boqi Yangxi Branch (as contractor and service provider) Yangxi Electric (as contract-issuing party) |
| Subject matter: | Provision of operation and maintenance services of coal conveying system and dock system (including pipe gallery, coal containing wastewater treatment system, all equipment at the dock, excluding air conditioning, firefighting, and lifting equipment within the bid section) in respect of the No. 1-6 Yangxi Facilities by Beijing Boqi |

Term

The duration of maintenance services is 50 months.

In the event that the standard of No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance fails to pass the assessment by Yangxi Electric in a particular stage, No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement shall be automatically terminated after completion of that stage without proceeding to the next stage.

In assessing the reasons for the duration of maintenance services contemplated under the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance to be longer than three years, we have considered the following factors:

- As advised by the Directors, Yangxi Electric selected services provider for the transactions contemplated under the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement by way of tendering procedures. According to the tendering document, which applied to all participants, the required duration of maintenance services under the template maintenance service agreement (being part of the tendering document) were 50 months. Therefore, it would be unduly burdensome and would add unnecessary administration costs for entering into maintenance services agreements with duration of not more than three years as the duration of the maintenance services is approximately 50 months.

LETTER FROM GRAM CAPITAL

- It is commercially beneficial for power plants operators to enter into longer operation and maintenance agreements due to the technical requirements and emission standards imposed by the PRC government to ensure compliance and certainty in their operations and minimization of their operational risk.

As mentioned above, the Group also entered into agreements with independent third parties regarding the provision of O&M services, with duration of more than three years.

Taking into account of the above, we confirm that the duration of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, which is longer than three years, is required and it is normal business practice for agreements of this type to be of such duration.

Service fee

Subject to adjustment that may be made in accordance with the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, the total service fee is approximately RMB84.9 million, details of which are set out below:

| No. | Item | Unit price (RMB) | Amount | Total fee to be received during the entire term (RMB) |
|--------------|---|------------------------|-----------|---|
| 1. | Routine maintenance fee for No. 1-6 Yangxi Facilities (<i>Note 1</i>) | 1,479,241.04 per month | 50 months | 73,962,052.00 |
| 2. | Separate priced items | | | |
| 2.1 | Maintenance fee for delayed operation of No. 5-6 facilities (<i>Note 2</i>) | 155,119.86 per month | 40 months | 6,204,794.40 (subject to actual costs incurred) |
| 2.2 | Additional projects fee (<i>Note 3</i>) | Nil | Nil | 2,000,000.00 (subject to actual costs incurred) |
| 3. | Adjustment of labor costs for routine maintenance in the third stage between 1 June 2025 and 31 July 2027 (<i>Note 4</i>) | Nil | Nil | 2,749,905.00 (subject to adjustment mechanism stated below) |
| Total | | | | 84,916,751.40 |

LETTER FROM GRAM CAPITAL

Notes:

1. The maintenance fee primarily includes labor costs, material costs, construction machinery cost, management fee etc.
2. The maintenance fee for delayed operation of No. 5-6 facilities includes BC1A/B/C belt conveyor extension section and dock extension section, No. 4 ship unloader and No. 5 ship unloader.
3. For the individual project price exceeding RMB50,000 but less than RMB100,000, the total price of the additional projects fee is estimated to be RMB2,000,000 subject to the actual costs incurred.
4. The amount of adjustment provision for labor costs for maintenance was determined based on requirements set out in the tendering document, which is applicable to all service providers participated in the tendering process.

We understood that Beijing Boqi was selected as contractor and service providers through tendering and bidding procedures. As stated in the Board Letter, the total service fee in respect of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement is determined based on the bidding price offered by the Group based on the objective standards in terms of the required scope of services and the respective term and frequency required for different types of services set out in the tendering process, after which Yangxi Electric awarded the contract to the Group after conducting the bid-evaluation. For our due diligence purpose, we obtained the successful tender notices (note: successful tender notice means a notice to formally inform the bidder who is successfully selected as service provider/products supplier by way of tendering and bidding procedures) and we noted that the total consideration of RMB84,916,751.40 represented the successful tender price offered by Beijing Boqi in the tendering and bidding procedures and the amounts showing in the successful tender notice.

Other terms

After review the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and tendering documents, we noted that save for the total service fee, which was the bidding price offered by the successful bidder for the tender for the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance, other key terms of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement (i.e. payment term, adjustment mechanism for labor costs, performance guarantee, etc.) were substantially the same as those set out in the tendering documents, which applied to all participants (i.e. possible service providers).

LETTER FROM GRAM CAPITAL

Proposed annual caps

Set out below are the proposed annual caps of the CCTs for the three years ending 31 December 2025:

| | For the year ending 31 December 2023 RMB'million | For the year ending 31 December 2024 RMB'million | For the year ending 31 December 2025 RMB'million |
|--|---|---|---|
| Service fee to be received by the Group (the “ Service Fees Caps ”) | 262.7 | 322.4 | 322.4 |
| Ancillary charges (the “ Ancillary Charges Caps ”) | 81.5 | 90.6 | 90.6 |

Bases for the determination of proposed annual caps are set out under the section headed “VI. Proposed annual caps” of the Board Letter.

For our due diligence purpose, we obtained a calculation (the “**Calculation**”) for the proposed annual caps for the three years ending 31 December 2025.

I. Service fee to be received by the Group

With reference to the Board Letter, the proposed annual caps in respect of service fee to be received by the Group are determined with reference to (i) the estimated service fees to be received by the Group under (a) No. 1-2 Yangxi Facilities Operation Service; (b) the Yangxi Agreements (as supplemented by the 2023 Supplemental Agreement); (c) No. 5-6 Yangxi Facilities Maintenance Service Agreement; and (d) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement; and (ii) a buffer of 10%.

Details of (i) are as follows:

| | For the year ending 31 December 2023 RMB'million | For the year ending 31 December 2024 RMB'million | For the year ending 31 December 2025 RMB'million |
|--|---|---|---|
| – <i>Estimated service fees generated by No. 1-2 Yangxi Facilities</i> | 104.0 | 139.0 | 139.0 |
| – <i>Estimated service fees generated by No. 3-4 Yangxi Facilities</i> | 122.3 | 129.3 | 129.3 |
| <i>Sub-total</i> | 226.3 | 268.3 | 268.3 |

LETTER FROM GRAM CAPITAL

| | For the year ending 31 December 2023 <i>RMB'million</i> | For the year ending 31 December 2024 <i>RMB'million</i> | For the year ending 31 December 2025 <i>RMB'million</i> |
|--|---|---|---|
| <i>– Estimated service fees generated from No. 5-6 Yangxi Facilities Maintenance Service Agreement</i> | 5.5 | 6.5 | 6.5 |
| <i>– Estimated service fees generated from No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement</i> | 7.0 | 18.2 | 18.2 |
| Total | 238.9 | 293.1 | 293.1 |

1.1. Estimated services fees from No. 1-2 Yangxi Facilities Operation Service and 2023 Supplemental Agreement

The estimated service fees from No. 1-2 Yangxi Facilities Operation Service and 2023 Supplemental Agreement comprised (i) estimated service fees to be generated by No. 1-2 Yangxi Facilities for No. 1-2 Yangxi Facilities Operation Service and O&M services (excluding ultra-low emission operation); (ii) estimated service fees to be generated by No. 3-4 Yangxi Facilities for O&M services (excluding ultra-low emission operation); and (iii) estimated service fees to be generated by No. 1-4 Yangxi Facilities for ultra-low emission operation services.

As advised by the Directors, the abovementioned estimated services fees were formulated with reference to their respective on-grid power generation (in kWh) by Yangxi Electric for the relevant periods; and the relevant fees for per kWh.

On-grid electricity generation

To assess the fairness and reasonableness of the on-grid electricity generation, we obtained from the Company (i) actual on-grid electricity generation (in kWh) by Yangxi Electric for the nine years ended 31 December 2022 and the eight months ended 31 August 2023; and (ii) the estimated on-grid electricity generation (in kWh) for FY2023, formulated based on the actual on-grid electricity generation by Yangxi Electric for the eight months ended 31 August 2023. We noted that estimated on-grid electricity generation by Yangxi Electric for FY2023 was approximately 10,767 million kWh.

LETTER FROM GRAM CAPITAL

Set out below are the on-grid electricity generation (million KWh) by Yangxi Electric for each of the nine years ended 31 December 2022:

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|--------|-------|--------|--------|--------|-------|-------|-------|-------|
| On-grid electricity generation (million kWh) | 10,901 | 9,930 | 10,158 | 10,976 | 12,070 | 9,673 | 7,360 | 9,347 | 7,526 |

The estimated on-grid electricity generation by Yangxi Electric of approximately 10,767 million kWh for FY2023 was substantially more than that for FY2022.

As advised by the Directors, due to the impact of the COVID-19 pandemic on industrial production, the on-grid power generation (in particular in 2020 and 2022) was substantially lower than those in pre-COVID -19 pandemic period. This is supported by the table above, pursuant to which on-grid electricity generation generally remains at level of 10,000 million kWh to 11,000 million kWh from 2014 to 2019. The Directors expected the on-grid power electricity generation by Yangxi Electric in 2023 would gradually recover to that before COVID-19 pandemic due to the relaxation of control measures and policies for COVID-19 pandemic in PRC.

We noted the following regarding on-grid electricity generation by Yangxi Electric:

- (1) decreased in 2015 as compared to that in 2014;
- (2) remained stable in 2016;
- (3) the level in 2017 recovered to that in 2014;
- (4) increased in 2018 as compared to that in 2017; and
- (5) decreased in 2019 as compared to that in 2018 and recorded the lowest level from the period from 2014 to 2019.

As advised by the Directors, the above movements were mainly due to the following reasons:

- (i) the “ultra-low emission” upgrade works as required by the latest state and municipal law, regulations and approval requirements caused the decrease in on-grid electricity generation in 2015;
- (ii) the increase in consumption of electricity in Guangdong Province in 2017 and 2018 mainly caused the increase in on-grid electricity generation in 2017 and 2018; and

LETTER FROM GRAM CAPITAL

- (iii) Yangxi Facilities’ maintenance downtime caused the on-grid electricity generation for 2019 decrease as compared to that of 2018.

The table below illustrates the gross domestic products (“GDP”), electricity generation and electricity consumption of Guangdong Province for the five years ended 31 December 2022:

| | 2018 | 2019 | 2020 | 2021 | 2022 | CAGR |
|---|----------|-----------|-----------|-----------|-----------|------|
| GDP (<i>RMB billion</i>) | 9,994.52 | 10,798.69 | 11,115.16 | 12,471.95 | 12,911.86 | 6.6% |
| Electricity generation (<i>million kWh</i>) | 436,962 | 472,632 | 500,991 | 611,523 | 609,381 | 8.7% |
| Electricity consumption (<i>million kWh</i>) | 632,335 | 669,585 | 692,612 | 786,663 | 787,034 | 5.6% |

Source: Statistics Bureau of Guangdong Province

As shown in the above table, the GDP of Guangdong Province had been increasing from 2018 and reached approximately RMB12,911.86 billion in 2022, representing a compound annual growth rate (“CAGR”) of approximately 6.6% from 2018 to 2022. Electricity consumption in Guangdong Province had been increasing at a CAGR of approximately 5.6% from 2018 to 2022, reaching approximately 787,034 million kWh in 2022. According to the above table, electricity consumption in Guangdong Province exceeded the electricity generation in Guangdong Province from 2018 to 2022.

Having considered the above factors, in particular,

- (i) the estimated on-grid electricity generation (in kWh) by Yangxi Electric for FY2023 was approximately 10,767 million kWh;
- (ii) the estimated on-grid electricity generation by Yangxi Electric would gradually recover in 2023 to that before COVID-19 pandemic due to the relaxation of control measures and policies for COVID-19 pandemic in the PRC; and
- (iii) the actual on-grid electricity generation by Yangxi Electric from 2014 to 2019 (i.e. before COVID-19 pandemic) generally remains at level of 10,000 million kWh to 11,000 million kWh,

we are of the view that the estimated on-grid electricity generation by Yangxi Electric of approximately 10,767 million kWh for FY2023 is fair and reasonable.

Furthermore, the estimated on-grid power generation by Yangxi Electric for each of FY2024 and FY2025 would remain stable at approximately 12,070 million kWh. Having considered that (i) the Directors expected the on-grid electricity generation by Yangxi Electric for FY2023 would gradually recover to that before COVID-19 pandemic due to the relaxation of control measures and policies for COVID-19 pandemic in the PRC; (ii) the estimated on-grid electricity generation by Yangxi Electric for FY2024 and FY2025

LETTER FROM GRAM CAPITAL

are approximately the same as that for 2018, being the highest on-grid electricity generation by Yangxi Electric from 2014 to 2019; and (iii) the increase in electricity consumption in Guangdong Province in recent years, we are of the view that the estimated on-grid power generation by Yangxi Electric of approximately 12,070 million kWh for FY2024 and FY2025 are fair and reasonable.

Per unit service fee

- **For O&M services:** with reference to the Board Letter, RMB0.02143 per kWh (tax included) was adopted for the calculation of O&M services.

For our due diligence purpose, we obtained the relevant settlement certificates for the first six months of 2023 and noted that the estimated service fee for O&M services was the same as the monthly unit service fee for O&M services as shown in the settlement certificates after taking into account the effect of tax. Accordingly, we consider the estimated service fee for O&M services for the three years ending 31 December 2025 (which are the same) to be reasonable.

- **For No. 1-2 Yangxi Facilities Operation Service:** with reference to the Board Letter, the Directors adopted RMB0.025 per kWh (tax included) as base price and adjusted the same according to different tax rates in recent years. Accordingly, we consider the estimated service fee for No. 1-2 Yangxi Facilities Operation Service for the three years ending 31 December 2025 (which are the same) to be reasonable.
- **For ultra-low emission operation service:** with reference to the Board Letter, the expected service fees in respect of “ultra-low emission” operation service fees for the three years ending 31 December 2025 are determined after considering the market rates and a prudent view that the transaction amounts for upcoming years shall be at similar levels.

Upon our request, we obtained figures showing the expected operation and maintenance costs to be incurred by Beijing Boqi for the ultra-low emission operation service. A premium of 10% was adopted in addition to the aforesaid costs.

As the calculation for the expected service fee for ultra-low emission operation service is in line with the pricing policy, we consider the estimated service fee for ultra-low emission operation service for the three years ending 31 December 2025 (which are the same) to be reasonable.

Conclusion

Based on (i) the estimated on-grid electricity generation for the three years ending 31 December 2025; and (ii) the per unit service fee for O&M services, No. 1-2 Yangxi Facilities Operation Service and ultra-low emission operation service (all were adjusted

LETTER FROM GRAM CAPITAL

to exclude tax), together with the anticipated allocation for on-gird power generation by each of No. 1-4 Yangxi Facilities, the implied service fees to be generated by No. 1-4 Yangxi Facilities for the three years ending 31 December 2025 would be approximately RMB226.7 million, RMB268.3 million and RMB268.3 million, respectively. The implied service fees for each of the three years ending 31 December 2025 approximates the estimated service fees of RMB226.3 million, RMB268.3 million and RMB268.3 million for the three years ending 31 December 2025. In light of the above, we are of the view that the estimated service fees for the three years ending 31 December 2025 are fair and reasonable.

I.2. Estimated service fees to be generated from No. 5-6 Yangxi Facilities Maintenance Service Agreement

FY2023

Based on the Calculation, the estimated service fees to be generated from No. 5-6 Yangxi Facilities Maintenance Service Agreement for FY2023 are based on (i) actual amounts for such service fees for the eight months ended 31 August 2023; and (ii) estimated amount for such service fees for the four months ending 31 December 2023.

Pursuant to the No. 5-6 Yangxi Facilities Maintenance Service Agreement, the Group is entitled to charge, among other things, a monthly routine maintenance fee for the No. 5-6 Yangxi Facilities of RMB455,864. The estimated amount for such service fees for the four months ending 31 December 2023 were calculated by the aforesaid monthly routine maintenance fee (excluding tax) and number of months.

Based on the above, the estimated service fee to be generated from No. 5-6 Yangxi Facilities Maintenance Service Agreement for FY2023 would be approximately RMB5.5 million (excluding tax). Accordingly, we consider the estimated service fee to be generated from No. 5-6 Yangxi Facilities Maintenance Service Agreement of RMB5.5 million for FY2023 is fair and reasonable.

FY2024 and FY2025

Based on the Calculation, the estimated service fee to be generated from No. 5-6 Yangxi Facilities Maintenance Service Agreement for each of FY2024 and FY2025 is approximately RMB6.5 million, comprised of (i) estimated routine maintenance fee for the No. 5-6 Yangxi Facilities; (ii) estimated C-level inspection and maintenance fees for each of the No. 5-6 Yangxi Facilities; and (iii) estimated additional service fees for the projects of which the individual project price exceeds RMB50,000 but less than RMB100,000.

The estimated routine maintenance fee for the No. 5-6 Yangxi Facilities for each of FY2024 and FY2025 was calculated based on the monthly routine maintenance fee as mentioned above, being approximately RMB5.2 million per annum (excluding tax).

LETTER FROM GRAM CAPITAL

In respect of C-level inspection and maintenance for each of the No. 5-6 Yangxi Facilities, pursuant to the No. 5-6 Yangxi Facilities Maintenance Service Agreement, the Group would provide 10 rounds of inspection and maintenance services during the term of the agreement and is entitled to fee of RMB192,124.80 for each round of inspection and maintenance service. As the term of the No. 5-6 Yangxi Facilities Maintenance Service Agreement was from 1 January 2022 to 31 August 2027, it is expected that the Group would provide one to two rounds of C-level inspection and maintenance services for each of the No. 5-6 Yangxi Facilities per year. As also advised by the Directors, the Group provided two rounds of C-level inspection and maintenance services for each of the No. 5-6 Yangxi Facilities for FY2022. Accordingly, the Directors estimated that the Group would provide two rounds of inspection and maintenance service for each year during the term of the No. 5-6 Yangxi Facilities Maintenance Service Agreement (with estimated transaction amount of approximately RMB0.4 million per annum) for the purpose of formulating the annual cap and we consider such assumption is justifiable.

In respect of additional service fees for the projects of which the individual project price exceeds RMB50,000 but less than RMB100,000, we noted from the Calculation that such additional services shall be provided by the Group during FY2024 and FY2025 and the additional service fees to be generated shall be RMB1 million per annum (being half of the estimated revised tentative fees).

Based on the above, we consider the estimated service fees to be generated from No. 5-6 Yangxi Facilities Maintenance Service Agreement of RMB6.5 million for FY2024 and FY2025 are fair and reasonable.

I.3. Estimated service fees to be generated from No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement

FY2023

Pursuant to the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, the Group is entitled to charge, among other things, a monthly routine maintenance fee for No. 1-6 Yangxi Facilities of RMB1,479,241.04 (tax inclusive). As advised by the Directors, the Directors originally expected that the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement will be effective in August 2023 and estimated the transaction amounts for FY2023 accordingly. Based on the aforesaid, the estimated service fees to be generated from No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement for FY2023 would be approximately RMB7.0 million (excluding tax).

FY2024 and FY2025

Based on the Calculation, the estimated service fees to be generated from No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement for each of FY2024 and FY2025 is approximately RMB18.2 million,

LETTER FROM GRAM CAPITAL

comprised of (i) estimated routine maintenance fee for No. 1-6 Yangxi Facilities; (ii) estimated maintenance fee for delayed operation of No. 5-6 Yangxi Facilities; and (iii) estimated additional projects fee.

The annualised routine maintenance fee for No. 1-6 Yangxi Facilities for each of FY2024 and FY2025 was calculated based on the monthly routine maintenance fee (excluding tax) as mentioned above, being approximately RMB16.7 million per annum.

In respect of maintenance fee for delayed operation of No. 5-6 Yangxi Facilities, pursuant to the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, the Group is entitled to charge RMB155,119.86 per month for a total of 40 months during the term of the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement. Based on the aforesaid, the annualised amounts for maintenance fee for delayed operation of No. 5-6 Yangxi Facilities for FY2024 and FY2025 would be approximately RMB1.8 million (calculated based on 12 months per year).

Pursuant to the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, for the individual project price exceeds RMB50,000 but less than RMB100,000, the total price of the additional projects is estimated to be RMB2,000,000, subject to the actual costs incurred. We noted that the Directors assumed RMB0.5 million will be recorded for each of FY2024 and FY2025.

Based on the above, the implied service fees generated from No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement for each of FY2024 and FY2025 would be approximately RMB19.0 million, which is close to the estimated service fees of RMB18.2 million for each of FY2024 and FY2025. Accordingly, we consider the estimated service fees generated from No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement for each of FY2024 and FY2025 are fair and reasonable.

1.4. Conclusion on service fee to be received by the Group

Having considered our analyses in the sub-sections headed “I.1. Estimated services fees from No. 1-2 Yangxi Facilities Operation Service and 2023 Supplemental Agreement”, “I.2. Estimated service fees generated from No. 5-6 Yangxi Facilities Maintenance Service Agreement” and “I.3. Estimated service fees generated from No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement” above, we are of the view that the service fee to be received by the Group for the three years ending 31 December 2025 are fair and reasonable.

LETTER FROM GRAM CAPITAL

II. Ancillary charges amounts

According to the Calculation:

- the ancillary charges were approximately RMB74.1 million, RMB82.3 million and RMB82.3 million for FY2023, FY2024 and FY2025, respectively, including electricity costs of approximately RMB68.0 million, RMB76.2 million and RMB76.2 million for the corresponding years.
- The ancillary charges amounts included (i) the estimated electricity costs; and (ii) the estimated other costs (such as water, vapor, etc.), for the three years ending 31 December 2025.

Based on:

- (i) the estimated electricity consumption by the Group for providing relevant services for desulfurization, denitrification service and ultra-low emission operation services in relation to the on-grid electricity generation by Yangxi Electric; and
- (ii) estimated unit cost of electricity (assuming that is the same as average unit cost of electricity for the eight months ended 31 August 2023),

the implied electricity costs would be approximately RMB68.0 million, RMB76.2 million, RMB76.2 million for the three years ending 31 December 2025. Accordingly, we consider the estimated electricity costs for the three years ending 31 December 2025 are fair and reasonable.

Furthermore, we noted that the estimated electricity costs for the three years ending 31 December 2025 represented approximately 92% to 93% of the ancillary charges amounts for the corresponding years. As the aforesaid percentages were at the same level as the proportion of electricity costs for the eight months ended 31 August 2023 (i.e. approximately 94%), we are of the view that the ancillary charges for the three years ending 31 December 2025 to be fair and reasonable.

III. Buffer

We noted that the Company has applied a buffer of 10% as an assumption for the determination of the Proposed Annual Caps. Having considered that (i) the additional buffer was applied for unforeseeable circumstances, for instance, to provide the Company with some flexibility to cater for any unexpected increase in the on-grid power generated volume and/or subsidies granted by the governments; (ii) we noted from other Hong Kong listed companies' circulars regarding continuing connected transactions that the incorporation of buffer of 10% in proposed annual caps are not uncommon among companies listed on the Stock Exchange, we consider that a buffer of 10% is acceptable.

LETTER FROM GRAM CAPITAL

IV. Our conclusion on proposed annual caps

In light of the above factors, in particular, that (i) the service fee to be received by the Group for the three years ending 31 December 2025 are fair and reasonable; (ii) the ancillary charges amounts for the three years ending 31 December 2025 are fair and reasonable; and (iii) the buffer of 10% is acceptable, we consider that the Service Fees Caps and the Ancillary Charges Caps for the three years ending 31 December 2025 to be fair and reasonable.

Shareholders should note that the Service Fees Caps and the Ancillary Charges Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and it does not represent forecast of revenue to be generated or costs to be incurred from the CCTs. Consequently, we express no opinion as to how closely the actual revenue to be generated or costs to be incurred from the CCTs will correspond with the respective annual caps.

Internal control measures

We understood that the Company adopted various internal control procedures for the continuing connected transactions of the Group, details of which are set out under the section headed “VII. INTERNAL CONTROL MEASURES” of the Board Letter. After considering the following factors, we are of the view that the effective implementation of the internal control procedure will ensure the fair pricing of the CCTs:

- In respect of desulfurization and denitrification subsidies, (i) there will be periodic checks on any update on the policies on the government prescribed subsidies for any adjustment and benchmark on-grid tariff promulgated by the competent government authorities; (ii) Beijing Boqi will double check weighted average on-grid tariff according to settlement certificate between Guangdong Huaxia Yangxi power plant and the State Power Grid; and (iii) the settlement certificate indicates (a) each power component of on-grid electricity sales per unit; (b) corresponding tariff (including environmental subsidies); and (c) on-grid electricity sales per unit.
- In respect of ultra-low emission operation, (i) there will be a project team, which comprises of professionals from the marketing department, maintenance business center and technical actuarial department to check and calculate the “ultra-low emission” operation fees; and (ii) there will be an inspector from Beijing Boqi who will enter the site of project to track the actual costs and expenses incurred.
- In respect of ancillary charges, Beijing Boqi has technical personnel on the project site for the provision of services in respect of the Yangxi Facilities, who will check the on-site meters tracking the energy consumption. Beijing Boqi and Yangxi Electric shall both confirm the relevant monthly statements prior to payment by Beijing Boqi.

LETTER FROM GRAM CAPITAL

- In respect of service fees pursuant to No. 5-6 Yangxi Facilities Maintenance Service, there will be a project team, which comprises of professionals from the marketing department, maintenance business center and technical actuarial department to check and calculate the costs to be incurred, especially, an inspector from Beijing Boqi who will enter the site of project to track the costs incurred ensuring that the C-level inspection and maintenance fees are the actual costs incurred. The Group's finance department will double check services fees to be received according to settlement certificate between Beijing Boqi Yangxi Branch and Yangxi Electric.
- In respect of service fees pursuant to No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement, there will be a project team, which comprises of professionals from the marketing department, maintenance business center and technical actuarial department to check and calculate the costs to be incurred, especially, an inspector from Beijing Boqi who will enter the site of project to track the costs incurred ensuring that fees are the actual costs incurred. The Group's finance department will double check services fees to be received according to settlement certificate between Beijing Boqi Yangxi Branch and Yangxi Electric.

In respect of the Service Fees Caps and the Ancillary Charges Caps, the Company carried out adequate supervision over the transaction amount under the CCTs, such measures included, among other things, data relating to connected transactions of the Company (including quarterly transaction amounts and cumulative amounts) will be reviewed on a quarterly basis (if the transaction amount reaches 80% of the annual caps at any point of the year, the management would seek advice from the audit committee and the Board would consider the next steps, including the need to inform the Stock Exchange, to publish any announcement and to seek independent Shareholders' approval for an increase in annual caps, if applicable).

Our conclusion on the CCTs

Having considered that our analyses above, including terms of the CCTs and proposed annual caps, we are of the view that terms of the CCTs are on normal and commercial terms and are fair and reasonable.

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the maximum values of the CCTs must be restricted the Proposed Annual Caps; (ii) the terms of the CCTs (including the relevant annual caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the CCTs must be included in the Company's subsequent published annual reports.

LETTER FROM GRAM CAPITAL

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the CCTs (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps.

In the event that the total amounts of the CCTs are anticipated to exceed the Service Fees Caps and the Ancillary Charges Caps, or that there is any proposed material amendment to the terms of the CCTs, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

With the stipulation of the above requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the CCTs (together with the relevant annual caps) and hence the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) (a) although the Acquisition is not conducted in the ordinary and usual course of business of the Group, the Acquisition is in the interests of the Company and the Shareholders as a whole; and (b) the CCTs are conducted 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 recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name of Director | Nature of Interest | Number and class of Shares | Approximate Percentage of Shareholding ⁽¹⁾ |
|--------------------------|---|--------------------------------|---|
| Mr. Zeng Zhijun | Interest of a controlled corporation ⁽²⁾ | 278,586,331 (Long Position) | 27.70% |
| Mr. Cheng Liquan Richard | Interest of a controlled corporation ⁽³⁾ ; and beneficial owner ⁽⁴⁾ | 168,534,580 (Long Position) | 16.76% |
| Mr. Zhu Weihang | Interest of a controlled corporation ⁽⁵⁾ | 152,170,529 (Long Position) | 15.13% |
| Ms. Qian Xiaoning | Beneficial owner ⁽⁶⁾ | 5,826,000 (Long Position) | 0.58% |

Notes:

- (1) The percentage has been calculated based on 1,005,720,799 shares in issue as at the Latest Practicable Date.

- (2) Mr. Zeng holds the entire issued share capital of Best Dawn Limited (“**Best Dawn**”) and 47.2% of interests in Asia Environment Investment Limited (“**Asia Environment**”). Therefore, Mr. Zeng is deemed to be interested in the Shares held by Best Dawn and Asia Environment under the SFO.
- (3) Mr. Cheng holds the entire issued share capital of World Hero International Limited (“**World Hero**”). Therefore, Mr. Cheng is deemed to be interested in the Shares held by World Hero under the SFO.
- (4) Mr. Cheng directly holds 400,000 shares of the Company.
- (5) The entire issued share capital of New Asia Limited (“**New Asia**”) is held by Great Origin Ventures Limited (“**Great Origin**”), whose entire issued share capital is in turn held by Mr. Zhu. Therefore, Mr. Zhu is deemed to be interested in the Shares held by New Asia under the SFO.
- (6) Ms. Qian is entitled to receive up to (i) 1,576,000 Shares pursuant to the pre-IPO share award scheme adopted by the Company on 15 April 2016; and (ii) 4,250,000 Shares pursuant to the share option scheme adopted by the Company on 29 December 2020.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company hold any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons had interests or short positions in Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name of Shareholder | Nature of Interest | Number and class of Shares | Approximate Percentage of Shareholding ⁽¹⁾ |
|---------------------|---|--------------------------------|---|
| Best Dawn | Beneficial owner | 255,645,143 (Long Position) | 25.42% |
| Mr. Zeng Zhijun | Interest of a controlled corporation ⁽²⁾ | 278,586,331 (Long Position) | 27.70% |
| Ms. Ge Tong | Interest of spouse ⁽³⁾ | 278,586,331 (Long Position) | 27.70% |

| Name of Shareholder | Nature of Interest | Number and class of Shares | Approximate Percentage of Shareholding ⁽¹⁾ |
|---|---|--------------------------------|---|
| World Hero | Beneficial owner | 168,134,580 (Long Position) | 16.72% |
| Mr. Cheng Liquan Richard | Interest of a controlled corporation ⁽⁴⁾ ; and beneficial owner ⁽⁵⁾ | 168,534,580 (Long Position) | 16.76% |
| Ms. Zhou Xuan | Interest of spouse ⁽⁶⁾ | 168,534,580 (Long Position) | 16.76% |
| New Asia | Beneficial owner | 152,170,529 (Long Position) | 15.13% |
| Great Origin | Interest of a controlled corporation ⁽⁷⁾ | 152,170,529 (Long Position) | 15.13% |
| Mr. Zhu Weihang | Interest of a controlled corporation ⁽⁷⁾ | 152,170,529 (Long Position) | 15.13% |
| Sinopec Overseas Investment Holding Limited (“Sinopec”) | Beneficial owner | 110,294,118 (Long Position) | 10.97% |
| China Petroleum & Chemical Corporation | Interest of a controlled corporation ⁽⁸⁾ | 110,294,118 (Long Position) | 10.97% |

Notes:

- (1) The percentage has been calculated based on 1,005,720,799 shares in issue as at the Latest Practicable Date.
- (2) Mr. Zeng holds the entire issued share capital of Best Dawn and 47.2% of interests in Asia Environment. Therefore, Mr. Zeng is deemed to be interested in the Shares held by Best Dawn and Asia Environment under the SFO.
- (3) Ms. Ge Tong is the spouse of Mr. Zeng. Under the SFO, Ms. Ge is deemed to be interested in the same number of Shares in which Mr. Zeng is interested.
- (4) Mr. Cheng holds the entire issued share capital of World Hero. Therefore, Mr. Cheng is deemed to be interested in the Shares held by World Hero under the SFO.
- (5) Mr. Cheng directly holds 400,000 shares of the Company.
- (6) Ms. Zhou Xuan is the spouse of Mr. Cheng. Under the SFO, Ms. Zhou is deemed to be interested in the same number of Shares in which Mr. Cheng is interested.

- (7) The entire issued share capital of New Asia is held by Great Origin, whose entire issued share capital is in turn held by Mr. Zhu. Therefore, Great Origin and Mr. Zhu are deemed to be interested in the Shares held by New Asia under the SFO.
- (8) China Petroleum & Chemical Corporation holds the entire issued share capital of Sinopec. Therefore, China Petroleum & Chemical Corporation is deemed to be interested in the Shares held by Sinopec under the SFO. China Petroleum & Chemical Corporation is a PRC state-owned company, whose H shares are listed on the Main Board (stock code: 386).

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any persons who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Our Directors confirm that, as at the Latest Practicable Date, none of the Directors or their close associates had any direct or indirect interest in any business which competes or might compete with our principal business.

5. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

Save for Mr. Zhu's interest in the No. 1-2 Yangxi Facilities under the Acquisition, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

Save for Mr. Zhu's interest in the Yangxi Agreements and the No. 5-6 Yangxi Facilities Maintenance Service Agreement as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group (other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group) or have any other conflicts of interest with the Group pursuant to the Listing Rules.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, there has not been any material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published consolidated audited financial statements of the Group were made up).

7. SERVICE AGREEMENTS

None of the Directors had entered into any service contract with the Company or any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)).

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which are contained or referred to in this circular:

| Name | Qualification |
|---|---|
| Gram Capital Limited | a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO |
| Asia-Pacific Consulting and Appraisal Limited | profession valuer |

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or opinion (as the case may be) and reference to its letter and name in the form and context in which they appear.

As at the Latest Practicable Date, the experts above did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the experts above did not have any direct or indirect interests in any assets which have since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

- (a) The registered office of the Company is at PO Box 309, Ugland House Grand Cayman KY1-1104 Cayman Islands, and the principal place of business in Hong Kong is at 40/F., Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong.
- (b) The branch share registrar of the Company is Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (c) The joint company secretaries are Mr. Hu Nan and Ms. Wong Wai Ling.
- (d) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS ON DISPLAY

The following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinaboqi.com) for a period of not less than 14 days before the date of the EGM:

- (a) No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement;
- (b) the 2023 Supplemental Agreement;
- (c) No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement;
- (d) No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement;
- (e) the letter from Gram Capital, the text of which is set out in the section headed “Letter from Gram Capital” of this circular;
- (f) the asset valuation report, the text of which are set out in Appendix II to this circular; and
- (g) the written consent referred to in paragraph headed “8. EXPERT AND CONSENT” in this appendix.

Note: As certain personal information (being personally identifiable information of the parties and staff) contained in No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement (the “Personal Information”) is considered to be personal data, the public disclosure of the Personal Information on the websites of the Company and the Stock Exchange may constitute a possible breach of the Personal Data (Privacy) Ordinance (Cap. 486 of the laws of Hong Kong). In addition, the Personal Information is irrelevant to the assessment of No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement or the transactions contemplated thereunder, or any of the assets, liabilities, financial position, profits and losses or prospect of the Company. Details of the material terms of No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement has been contained in this circular in all material respects such that the Shareholders and the investing public will be able to make a properly informed assessment of the transactions contemplated thereunder, and to make an informed voting decision about the same. In light of the above, the Company has applied to the Stock Exchange and the Stock Exchange has granted a waiver from strict compliance with Rule 14.66(10) of and paragraph 43(2)(c) of Appendix 1B to the Listing Rules for the redaction of the Personal Information in No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement.

The following is the text of a letter, summary of values prepared for the purpose of incorporation in this circular received from Asia-Pacific Consulting and Appraisal Limited, an independent valuer, in connection with its valuation as at 30 September 2023 of the Assets.



CONSULTING & APPRAISAL

亞太評估

Asia-Pacific Consulting and Appraisal Limited

Flat/RM A 12/F ZJ 300

300 Lockhart Road

Wan Chai, Hong Kong

12 December 2023

The Board of Directors

China Boqi Environmental (Holding) Co., Ltd.

40/F, Dah Sing Financial Centre

248 Queen's Road East

Wan Chai, Hong Kong

Dear Sirs,

In accordance with the instructions received from China Boqi Environmental (Holding) Co., Ltd. (the “Company”), we have undertaken a valuation exercise which requires Asia-Pacific Consulting and Appraisal Limited (“APA”) to express an independent opinion on the market value of desulfurization and denitrification facilities for No. 1 and No. 2 units (the “Asset”) belonging to Yangxi Haibin Electric Power Development Co., Ltd. (陽西海濱電力發展有限公司) (“Yangxi Electric”). We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing our opinion of the valuation as at 30 September 2023 (the “Valuation Date”).

The purpose of this valuation is for circular reference of the Company.

Our valuation was carried out on a market value basis which is defined as “the estimated amount at which the subject assets should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing where in the parties had each acted knowledgeably, prudently, and without compulsion”.

INTRODUCTION

Yangxi Electric is a limited liability company established in the PRC on 5 February 2004, a wholly-owned subsidiary of Guangdong Huaxia Electric Development Co., Ltd. (廣東華廈電力發展有限公司). Yangxi Electric is located in Yangxi County, Guangdong Province, the PRC, and engages in coal-fired power generation. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing our opinion of the valuation as at the Valuation Date.

BASIS OF VALUATION

We have adopted the Market Value In Continued Use as being the most appropriate, in accordance with the following definition: –

Market Value is defined herein as “the estimated amount at which the subject assets should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing where in the parties had each acted knowledgeably, prudently, and without compulsion.”

Market Value In Continued Use is further defined as amount of money at which a given property would change hands between a willing buyer and a willing seller, in an appropriate marketplace, when neither is acting under compulsion and when both have reasonable knowledge of relevant facts, including installation and other turnkey costs and assumes that earnings support the value reported.

Market Value In Continued Use does not represent the amount that might be realised in the event of piecemeal disposition of the assets in the open market or from any alternative use to which they may be put.

THE ASSETS

The Assets valued are facilities for No. 1 and No. 2 units of Yangxi Electric, which are (i) facilities of desulfurization, denitrification and public systems (including ammonia area), desulfurization wastewater treatment system and its supporting equipment, desulfurization wastewater drug handling/preparation, glass flake and spray layer repair; (ii) electrical facilities: on-site power boxed distribution boxes, maintenance power boxes and other primary and secondary equipment, 6kV system panel, UPS panel, transformer, cables and cable tray; (iii) thermal control facilities: all thermal control facilities for desulfurization, denitrification, and public systems (including ammonia area), all thermal control facilities for desulfurization and wastewater treatment system and its supporting equipment systems; desulfurization and denitrification CEMS system equipment; (iv) comprehensive facilities: ancillary buildings, support of pipelines, flue duct, foundation of equipment and tanks, cesspool, fire-fighting system, and elevator equipment, principally are desulfurization and denitrification facilities for No. 1 and No. 2 units of Yangxi Electric for power generating.

We have carried out inspection of the assets from 5 to 6 September 2023 in Yangxi County, Guangdong Province, the PRC. During our inspection, we have been provided with a listing of the Assets. We have relied considerably on this plus on other information such as fixed assets specifications and other documents provided to us. In valuing the Assets, we have relied on the advice given by Yangxi Electric that they have valid and enforceable title to the Assets and the records of the Assets including the costs and acquisition dates.

We have inspected the major assets and found that they were kept in reasonable condition and basically in good productive manner and fair working conditions. Assets which were idle, disused or scrapped had been indicated on the attached schedule of assets. In the asset listing, we found that the acquisition costs stated were carried at original historical costs. Most of the Assets were in use upon our inspection, we are of the opinion that all of the Assets should be capable of operating the purpose for which they were designed and produced.

We have not carried out a full mechanical survey, nor have inspected other assets which are covered, unexposed or inaccessible, and our assessments on these non-inspected assets are based on the premise that these items are in a condition that is commensurate with age and usage.

VALUATION METHODOLOGY

There are three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect the condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Income approach is the present worth of the future economic benefits of ownership. This approach is generally applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and tangible and intangible assets.

Cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets or by making reference to the purchase price of similar assets, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present (if applicable), whether arising from physical, functional or economic cause. The cost approach generally furnishes the most reliable indication of value for assets with specific purpose and without known used market.

Replacement Cost New – is the amount required to replace property with a modern new unit utilizing the most current technology and construction materials that will duplicate the product capacity and utility of an existing unit at current market prices for materials, labour and manufactured equipment, contractor’s overhead and profit, and fees, but without provision for overtime or bonuses for labour and premiums for material or equipment based upon replacing the entire property at one time.

Physical Depreciation – the loss in value or usefulness of a property due to the using up or expiration of its useful life caused by wear and tear, deterioration, exposure to various elements, physical stresses, and similar factors.

Functional Obsolescence – the loss in value or usefulness of a property caused by inefficiencies or inadequacies of the property itself, when compared to a more efficient or less costly replacement property than new technology has developed.

Economic Obsolescence – the loss in value or usefulness of a property caused by factors external to the assets. These factors include increased cost of raw materials, labour or utilities, reduced demand for the product; increased competition; environmental or other regulation; or similar factors.

ANALYSES

In accordance to valuation procedures, all valuation approaches must be considered, as one or more approaches may be applicable to the subject asset. In certain situations, elements of the three approaches may be combined to reach a value conclusion. However, the relative strength, applicability, and significance of the approaches and their resulting values must be analysed and reconciled.

In this exercise, we have considered and excluded the income approach due to insufficient financial data being available. We have also considered and excluded the market approach due to lack of active secondary market. Therefore, we relied on the cost approach, where an estimate is made on the cost of reproduction new or replacement cost, less allowance for depreciation or loss of value arising from condition, utility, age, wear and tear, and obsolescence, taking into consideration past and present maintenance policy, and rebuilding history, if any, and current utilization.

The basic formulas are as follow:

Market Value = Full Replacement Cost × Integrated Residue Ratio

Full Replacement Cost = Equipment purchase price + Freight and miscellaneous expenses

Integrated Residue Ratio = (1 – Physical Deterioration ratio) × (1 – Functional obsolescence ratio) × (1 – Economic obsolescence ratio)

We began by developing current replacement cost new for similar or equivalent units according to prices we obtained from the manufacturer, its authorized dealers, or our in-house database. To arrive at the full replacement cost, we combined it with estimates of any additional material costs, such as electrical wiring, piping, foundations, support structures, and insulation and finishes; direct costs, including import duty, and freight and handling charges; installation costs; general contractors' costs; and indirect costs, such as engineering, design, and purchasing. We have valued the in-house built assets by using original costs which were indexed using appropriate asset cost trend multipliers. These multipliers are based on statistical information from government and private industry and we applied it to the original cost to obtain replacement/reproduction cost new.

The next step in the cost approach is to assess the physical deterioration of the assets by determining its effective age. In determining the effective age of the assets, we have considered the observed condition in relation to its chronological age; whether or not maintenance was adequate for the period of use; and the effects of any technological changes on the equipment's life expectancy. Effective age is the number of years of apparent age, based on the observed condition and the amount of wear and tear experienced during its life.

Decrease in useful life is normally quantified through an age-life analysis which measures the loss in value due to the reduction in normal useful life, which is the first cause in measuring physical depreciation. Normal useful life ranges are adopted from estimated normal useful life study by American Society of Appraisers. Considering both the reduced useful life and the decline in utility enables us to quantify the physical depreciation of the asset.

Apart from measuring depreciation of physical characteristics, we must consider other forms of depreciation in arriving at an overall depreciation, namely functional and economic obsolescence. Functional obsolescence is the impairment of functional capacity or efficiency caused by factors inherent in the property. These factors include but are not limited to such items as changes in current technology, discovery of new and improved materials, improved manufacturing processes, under- or over-capacities, production rates, and highest and best use. Economic obsolescence is the loss in value or usefulness of a property caused by factors external to the assets. These factors include increased cost of raw materials, labour or utilities, reduced demand for the product; increased competition; environmental or other regulation; or similar factors. In this case, no technology, materials, processing, capacities experienced significant change or improvement, and no indicator shows external factors caused the usefulness of the assets, thus the functional obsolescence and economic obsolescence are considered to be zero.

The final step in the cost approach is to deduct the physical depreciation, functional and economic obsolescence from the replacement cost new to conclude at the market value.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council and the RICS Valuation-Global Standards issued by the Royal Institution of Chartered Surveyors. The valuation procedures employed include a review of economic condition of Yangxi Electric and an assessment of key assumptions, estimates, and representations made by Yangxi Electric. All matters essential to the proper understanding of the valuation are disclosed in this report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and historical financial performance of Yangxi Electric;
- Financial and business risk of the business including continuity of income and the projected future results;
- Consideration and analysis on the micro and macro economy affecting the subject business; and
- Other operational and market information in relation to Yangxi Electric's business.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the market value of the Assets.

VALUATION ASSUMPTIONS

In determining the market value of the Asset, we made the following assumptions:

- The seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests;
- All relevant legal approvals and business certificates or licenses to operate the business in which Yangxi Electric operates or intends to operate have been or would be officially obtained and renewable upon expiry;
- There will be no major change in the political, legal, economic and social environment in which Yangxi Electric operates or intends to operate;
- Interest rates and exchange rates in the localities for the operation of Yangxi Electric will not differ materially from those presently prevailing;

- It is assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- The financial and operational information provided by Yangxi Electric accurate and reliable;
- There are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value;
- The current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of Yangxi Electric through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed;
- It is assumed the continuation of prudent management of Yangxi Electric over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued;
- Yangxi Electric will successfully carry out all necessary activities for the development of its business as a going concern;
- Key management, competent personnel and technical staff to support the ongoing operations of Yangxi Electric; and
- The competitive advantages and disadvantages of Yangxi Electric do not change significantly during the period under consideration.
- For the buildings of the property which have not been provided with Real Estate Certificate, we have valued the properties on the assumption that the properties can be freely transferred or disposed without payment of any further land premium, construction cost, penalty or transfer fees.
- We have made no investigation and assume no responsibility for titles or liabilities against the Assets. In the course of our valuation, land, leasehold improvements in respect of the leasehold property, spare parts, inventories, supplies, materials, on-hand company records or any current and intangible assets are excluded.

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Yangxi Electric and Asia-Pacific Consulting and Appraisal Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of Yangxi Electric over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report is issued subject to our limiting conditions.

OPINION OF VALUE

Based on the results of our investigations and analyses, it is our opinion that RMB159,030,000 (RMB ONE HUNDRED AND FIFTY-NINE MILLION THIRTY THOUSAND YUAN), fairly represents the estimated market value (tax excluded) of the Assets as at 30 September 2023, representing a slight appreciation of approximately RMB2.67 thousand (or approximately 0.002%) as compared to the book value of approximately RMB159,030 thousand as at the Valuation Date.

| Assets | Acq. Cost <i>(RMB)</i> | Net Book Value <i>(RMB)</i> | Market Value <i>(RMB)</i> |
|--|----------------------------------|---------------------------------------|---|
| Desulfurization and denitrification | 145,406,170.11 | 44,561,717.23 | 38,843,400.00 |
| Electrical facilities | 59,520,139.39 | 20,068,207.00 | 19,829,600.00 |
| Thermal control facilities | 30,838,645.15 | 10,397,763.19 | 9,102,500.00 |
| Comprehensive facilities | 150,507,017.11 | 83,999,638.55 | 91,250,000.00 |
| Total | 386,271,971.76 | 159,027,325.97 | 159,030,000.00 <i>(rounded)</i> |

Yours faithfully,
for and on behalf of
Asia-Pacific Consulting and Appraisal Limited
David G.D. Cheng
MRICS
Partner

Note: David G.D. Cheng is a Chartered Surveyor who has 21 years' experience in the valuation in the PRC, Hong Kong and the Asia-Pacific region.

NOTICE OF EGM



China Boqi Environmental (Holding) Co., Ltd. 中國博奇環保(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2377)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of China Boqi Environmental (Holding) Co., Ltd. (the “**Company**”) will be held at the conference room of the Company at Floor 2, Guoben Culture Building, No. Jia 8, Xinglongzhuang, Chaoyang District, Beijing, the PRC on Friday, 29 December 2023 at 10:30 a.m. (the “**Meeting**”) for the purposes of considering and, if thought fit, passing the following matters. Terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 12 December 2023 (the “**Circular**”) unless otherwise defined.

ORDINARY RESOLUTIONS

- (1) To consider and, if thought fit, to approve the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement and transactions contemplated thereunder.
- (2) To consider and, if thought fit, to approve the 2023 Supplemental Agreement and transactions contemplated thereunder.
- (3) To consider and, if thought fit, to approve the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement and transactions contemplated thereunder.
- (4) To consider and, if thought fit, to approve the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder.
- (5) To consider and, if thought fit, to approve the Proposed Annual Caps.
- (6) To authorise the Directors, acting together, individually or by committee, to take such actions, do all such acts and things and execute all such further documents or deeds as they may consider necessary, appropriate, desirable or expedient for implementation of or giving effect to the No. 1-2 Yangxi Facilities Asset Transfer of Desulfurization and Denitrification Projects Agreement, the 2023 Supplemental Agreement, the No. 5-6 Yangxi Facilities Maintenance Service Supplemental Agreement, the No. 1-6 Yangxi Facilities Coal Conveying System and Dock System Maintenance Service Agreement and transactions contemplated thereunder (including the Proposed Annual Caps).

By Order of the Board
China Boqi Environmental (Holding) Co., Ltd.
Zeng Zhijun
Chairman, Executive Director and Chief Executive Officer

Beijing, PRC, 12 December 2023

NOTICE OF EGM

As at the date of this notice, the executive Directors are Mr. Zeng Zhijun, Mr. Liu Genyu and Ms. Qian Xiaoning; the non-executive Directors are Mr. Cheng Liquan Richard, Mr. Zheng Tony Tuo, Mr. Zhu Weihang and Mr. Chen Xue; and the independent non-executive Directors are Dr. Xie Guozhong, Mr. Lu Zhifang, Prof. Yu Wayne W. and Ms. Zhang Fan.

Notes:

1. A shareholder entitled to attend and vote at the Meeting is entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it; a proxy need not be a shareholder of the Company.
2. In the case of joint holders of any shares in the Company, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the Meeting, either personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.
3. In order to be valid, a form of proxy must be deposited at the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the Meeting (or any adjourned meeting thereof) if they so wish.
4. In order to qualify for attending and voting at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, 21 December 2023. For determining the entitlement to attend and vote at the Meeting or any adjournment thereof, the record date is fixed on Thursday, 21 December 2023. Shareholders whose names appear on the register of members of the Company at the close of business on the record date will be entitled to attend and vote at the Meeting.
5. The votes at the Meeting will be taken by poll.