
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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser immediately.

If you have sold or transferred all your shares in the capital of Yunnan Energy International Co. Limited (the “Company”), you should at once hand this Circular, and the accompanying form of proxy, to the purchaser or transferee or to the licensed securities dealer or to the bank or to the agent through whom you effected the sale or transfer for onward transmission to the purchaser or transferee.

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雲能國際
YUNNAN ENERGY INTERNATIONAL

Yunnan Energy International Co. Limited

雲能國際股份有限公司*

(Incorporated in Bermuda with limited liability)

(Hong Kong Stock Code: 1298)

(Singapore Stock Code: T43)

CONNECTED AND DISCLOSEABLE TRANSACTIONS ACQUISITION OF 6.67% EQUITY INTEREST IN DAYAO GREEN ENERGY AND NOTICE OF SPECIAL GENERAL MEETING

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



A letter from the Board of Yunnan Energy International Co. Limited (the “Company”) is set out on pages 5 to 20 of this circular. A letter from the Independent Board Committee of the Company is set out on pages 21 to 22 of this circular. A letter from Halcyon Capital Limited, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 23 to 43 of this circular.

A notice convening the special general meeting (the “SGM”) of the Company to be held at Room 2008, 20/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and via live audio-visual webcast or live audio-only stream on Tuesday, 19 March 2024 at 10:00 a.m. (Hong Kong time) (or any adjournment thereof) is set out on pages 48 to 49 of this Circular. A form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the SGM, please complete the form of proxy accompanying this Circular 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 Centre, 16 Harcourt Road, Hong Kong (for Shareholders in Hong Kong), or the Company’s share transfer agent in Singapore, Tricor Barbinder Share Registration Services at 9 Raffles Place, #26-01, Republic Plaza Tower I, Singapore 048619 (for Shareholders in Singapore), as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or any adjournment thereof) should you so wish.

* For identification purpose only

23 February 2024

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DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CDP”	The Central Depository (Pte) Limited
“Circular”	this Circular
“Company”	Yunnan Energy International Co. Limited, a company incorporated in Bermuda with limited liability, the Shares of which are primarily listed on the Main Board of the Stock Exchange and secondarily listed on the Main Board of the SGX-ST
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Cooperation Agreement I”	the Dayao County Bohou Village photovoltaic solar power station construction agreement entered into between the Vendor and 大姚縣人民政府 (Dayao County People’s Government*) in April 2022
“Cooperation Agreement II”	the Dayao County 600,000 kilowatts new energy base projects investment and development cooperation agreement entered into between the Vendor and 大姚縣人民政府 (Dayao County People’s Government*) on 30 November 2022
“Cooperation Agreements”	the Cooperation Agreement I and the Cooperation Agreement II
“Dayao Green Energy”	大姚雲能投綠色能源開發有限公司 (YEIG Dayao Green Energy Generation Co., Ltd.*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
“Dayao Projects”	the investment, construction, operation and management of certain green energy power generation stations, with a total construction scale (installed capacity) of not less than 645,000 kilowatts in Dayao County, Chuxiong Prefecture, Yunnan Province, the PRC under the Cooperation Agreements
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the equity transfer agreement entered into between the Company, the Vendor and Dayao Green Energy on 19 January 2024

DEFINITIONS

“EPC Agreement”	the engineering, procurement and construction agreement in relation to the designing, procurement, construction and installation of certain green energy power generation stations entered into between Dayao Green Energy and 中國電建集團昆明勘測設計研究院有限公司 (China Power Construction Corporation Kunming Survey and Design Institute Co., Ltd.*) dated 13 July 2023
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Board, comprising all the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Halcyon Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Equity Transfer Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than Yunnan Provincial Energy and its associates
“independent third party(ies)”	individual(s) or company(ies) not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Latest Practicable Date”	19 February 2024, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, and for the purpose of this Circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFA”	the Securities and Futures Act (Chapter 289) of Singapore, as amended, modified or supplemented from time to time

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened for, among other matters, approving the Equity Transfer Agreement and the transactions contemplated thereunder
“SGX-ST”	the Singapore Exchange Securities Trading Limited
“Share(s)”	the ordinary share(s) of US\$0.05 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Share(s) in the Register of Members of the Company, except that where the registered holder is CDP, the term “Shareholders” shall, where the context admits, mean the persons named as Depositors in the Depository Register maintained by CDP and into whose securities accounts the Shares are credited and where the registered holder is CCASS
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the acquisition of approximately 6.67% equity interest in Dayao Green Energy by the Company from the Vendor and the capital contribution by the Company into Dayao Green Energy under the Equity Transfer Agreement
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	雲南能投新能源投資開發有限公司 (Yunnan Energy Investment Development Co., Ltd*), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of Yunnan Provincial Energy
“Yunnan Energy Investment (HK)”	Yunnan Energy Investment (HK) Co. Limited, a company incorporated under the laws of Hong Kong with limited liability, a wholly-owned subsidiary of Yunnan Provincial Energy and an intermediate holding company of the Company
“Yunnan Provincial Energy”	雲南省能源投資集團有限公司 (Yunnan Provincial Energy Investment Group Co., Ltd*), a company incorporated in the PRC with limited liability and the ultimate controlling shareholder of the Company
“Yunnan Provincial Energy Group”	Yunnan Provincial Energy and its subsidiaries
“%”	per cent

DEFINITIONS

The expressions “**Depositor**”, “**Depository Agent**” and “**Depository Register**” shall have the respective meanings ascribed to them in Section 81SF of the SFA.

Words importing the singular shall, where applicable, include the plural and vice versa, and words importing the masculine gender shall, where applicable, include the feminine and the neuter genders and vice versa. Words importing persons shall, where applicable, include corporations.

The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

Any reference to a time of day in this Circular shall be a reference to Hong Kong time unless otherwise stated.

In the event of any inconsistency between the English version of this Circular (including the SGM Notice) and the proxy form, and the Chinese version of this Circular (including the SGM Notice) and the proxy form, the English version shall prevail.

* *For identification purpose only*

LETTER FROM THE BOARD



雲能國際
YUNNAN ENERGY INTERNATIONAL

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雲能國際股份有限公司*

(Incorporated in Bermuda with limited liability)

(Hong Kong Stock Code: 1298)

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Executive Directors

Mr. HU Xiangwei (*Chairman*)

Ms. ZHU Yingxue (*Chief Executive Officer*)

Mr. YANG Jie

Mr. WANG Jin

Mr. SONG Henan

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26 Harbour Road

Wanchai

Hong Kong

Independent non-executive Directors

Mr. SHI Fazhen

Mr. LIU Zongliu

Ms. JING Pilin

23 February 2024

To the Shareholders

Dear Sir or Madam

**CONNECTED AND DISCLOSEABLE TRANSACTIONS
ACQUISITION OF 6.67% EQUITY INTEREST
IN DAYAO GREEN ENERGY
AND
NOTICE OF SPECIAL GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 19 January 2024 in respect of the Equity Transfer Agreement.

* For identification purpose only

LETTER FROM THE BOARD

On 19 January 2024 (after trading hours of the Stock Exchange), the Company entered into the Equity Transfer Agreement with the Vendor and Dayao Green Energy, pursuant to which, (i) the Vendor has agreed to sell, and the Company has agreed to acquire, approximately 6.67% equity interest in Dayao Green Energy at nil consideration; and (ii) the Company has agreed to make capital contribution of RMB50,000,000 into Dayao Green Energy, according to its equity interest in Dayao Green Energy following completion of the equity transfer.

As the Company will only hold approximately 6.67% equity interest in Dayao Green Energy and will not obtain statutory control over Dayao Green Energy, after completion of the Transactions, Dayao Green Energy will not become a subsidiary of the Company and therefore its financial results will not be consolidated into the financial statements of the Group. Dayao Green Energy will be classified as equity investment at fair value through other comprehensive income in the financial statements of the Group.

The purpose of this circular is to provide you with, among other matters, (i) further details of the Equity Transfer Agreement; (ii) the letter from the Independent Board Committee advising the Independent Shareholders in relation to the Equity Transfer Agreement and the transactions contemplated thereunder; (iii) the letter from the Independent Financial Adviser advising the Independent Board Committee and the Independent Shareholders in relation to the Equity Transfer Agreement and the transactions contemplated thereunder; (iv) the notice of the SGM, and (v) other information as required by the Listing Rules.

2. EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set out as follows:

Date

19 January 2024

Parties

- 1) The Company (as purchaser);
- 2) The Vendor (as seller); and
- 3) Dayao Green Energy.

Transfer of Equity Interest in Dayao Green Energy

As at the Latest Practicable Date, the Vendor holds 100% equity interest in Dayao Green Energy. Pursuant to the Equity Transfer Agreement, (i) the Vendor has agreed to sell, and the Company has agreed to acquire, approximately 6.67% equity interest in Dayao Green Energy at nil consideration, and (ii) the Company has agreed to make capital contribution of RMB50,000,000 into Dayao Green Energy, according to its equity interest in Dayao Green Energy following completion of the equity transfer.

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The nil acquisition consideration was determined after arm's length negotiations between the Vendor and the Company on the consensus that the respective equity investment in the Dayao Projects of the Vendor and the Company shall be made by way of capital contribution into Dayao Green Energy in accordance with the proposed respective equity interest of the Vendor and the Company in Dayao Green Energy, i.e. 93.33% and 6.67% of the registered capital of Dayao Green Energy of RMB750,000,000 respectively.

As the Company will only hold approximately 6.67% equity interest in Dayao Green Energy and will not obtain statutory control over Dayao Green Energy, after completion of the Transactions, Dayao Green Energy will not become a subsidiary of the Company and therefore its financial results will not be consolidated into the financial statements of the Group. Dayao Green Energy will be classified as equity investment at fair value through other comprehensive income in the financial statements of the Group.

Registered capital of Dayao Green Energy

The registered capital of Dayao Green Energy is RMB750,000,000, of which RMB169,500,000 has been paid up by the Vendor as at the Latest Practicable Date. The registered capital amount was determined after taking into account, among others, (i) the estimated aggregate investment amount of approximately RMB3,005.9 million as set out in the feasibility studies in respect of the six solar power generation projects, as further described in the section headed "4. Information of the Parties – Dayao Green Energy", (ii) the minimum capital ratio for investment in fixed assets of the electricity project (being no less than 20%), according to the Notice of the State Council on Adjusting and Improving the Capital Fund System for Fixed Asset Investment Projects (No. 51 [2015] of the State Council) (國發[2015] 51號 - 國務院關於調整和完善固定資產投資專案資本金制度的通知)(the "No. 51 [2015] Notice"), published by the State Council of the PRC, (iii) the minimum capital requirements (being no less than 20%) for external financing, based on the discussions with various independent commercial banks in the PRC, and (iv) the capital structure for similar types of new green energy projects of the Yunnan Provincial Energy Group, which also follow the No. 51 [2015] Notice. Pursuant to the Equity Transfer Agreement, the Vendor and the Company have agreed to contribute capital by cash payment, after the registration procedures with the PRC administration of market regulation in relation to the transfer of approximately 6.67% equity interest in Dayao Green Energy from the Vendor to the Company has been completed. Capital contributions will be made by installments according to the funding requirement of the Dayao Projects and within one month upon receipt of the capital contribution request from Dayao Green Energy. If a shareholder fails to make capital contributions as required by the capital contribution request of Dayao Green Energy, such shareholder shall be temporarily restricted from exercising the right to request for profit distribution and the right to vote until the capital contribution has been made. Details of the capital contributions and equity interest in Dayao Green Energy upon completion of the Transactions are listed below:

Parties	Capital Contribution	Equity Percentage
The Vendor	RMB700,000,000	93.33%
The Company	RMB50,000,000	6.67%
Total	<u>RMB750,000,000</u>	<u>100%</u>

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The amount of capital contribution was determined after arm's length negotiations between the Vendor and the Company with reference to, among others, the registered capital of Dayao Green Energy, the respective equity interest in Dayao Green Energy, and the capital needs for the investment, construction, operation and management of the Dayao Projects, as further discussed in the section headed "4. Information of the Parties – Dayao Green Energy". The Company intends to fund its capital contribution from internal resources of the Group.

Based on the latest development timetable of the Dayao Projects provided by the Vendor and Dayao Green Energy, the development and construction work of the six photovoltaic solar power generation stations is expected to complete, with grid connection in the second quarter of 2024. Accordingly, shareholders of Dayao Green Energy, including the Company (subject to completion of the Transactions), are expected to make 90% of its committed capital contribution in the second quarter of 2024, and the remaining 10% shall be contributed in the second half of 2024.

Completion of Equity Transfer

Within 30 days from the effective date of the Equity Transfer Agreement, the parties shall cooperate to complete the registration procedures with the PRC administration of market regulation in relation to the transfer of approximately 6.67% equity interest in Dayao Green Energy from the Vendor to the Company. All shareholders of Dayao Green Energy shall enjoy their shareholder rights and assume corresponding shareholder obligations in accordance with, among others, the Company Law of the PRC and the articles of association of Dayao Green Energy, including shareholder identity right, information right, dividend right, voting right, repurchase right and inquiry right.

Conditions precedent and effectiveness

The Equity Transfer Agreement shall become effective, conditional on the Company's compliance with all applicable laws, rules and regulations (including but not limited to the Listing Rules) as regards the transactions contemplated under the Equity Transfer Agreement, including but not limited to the Company having obtained approval from the Independent Shareholders at the SGM.

As at the Latest Practicable Date, save for the Independent Shareholders' approval, the Company is not aware of any other approvals, filings and consents that are required in accordance with the applicable laws, rules and regulations as regards the transactions contemplated under the Equity Transfer Agreement.

The approval from the Independent Shareholders is not waivable and has not yet been fulfilled as of the Latest Practicable Date.

Assuming the Independent Shareholders' approval is obtained at the SGM and the Equity Transfer Agreement becomes effective on the same date, it is expected that the transfer of approximately 6.67% equity interest in Dayao Green Energy from the Vendor to the Company will complete in the second quarter of 2024.

LETTER FROM THE BOARD

Management of Dayao Projects

The Vendor entered into the Cooperation Agreements with 大姚縣人民政府 (Dayao County People's Government*) to obtain the right to develop the Dayao Projects. According to the Cooperation Agreements, the Vendor shall establish a separate project company (i.e. Dayao Green Energy) in Dayao County to be responsible for the development, construction, operation and management of the Dayao Projects. In order to expedite the development of the Dayao Projects, before Dayao Green Energy was duly established, all approval procedures in respect of the Dayao Projects, including pre-approval, approval and filings etc., were carried out in the name of the Vendor. After establishment of Dayao Green Energy, for the purpose of consistency, the Vendor continued to conduct the approval procedures of the Dayao Projects in its own name. The Vendor and Dayao County People's Government agreed that upon its establishment, Dayao Green Energy shall serve as the investment, construction, operation and management entity of the Dayao Projects and assume all rights and obligations of the Vendor relating to the Dayao Projects. For the sake of prudence, Yunnan Energy Investment (HK) has issued an undertaking dated 19 January 2024 in favour of the Company, pursuant to which Yunnan Energy Investment (HK) has agreed to compensate the Company losses suffered arising from above approval procedures being carried out and obtained by the Vendor.

Shareholders' meetings of Dayao Green Energy

According to the articles of association of Dayao Green Energy, the voting rights shall be exercised by the shareholders at shareholders' meetings in accordance with the proportion of capital contribution subscribed. Resolutions on important matters, including (i) reviewing and approving the company's provision of external guarantee, (ii) approving the merger, division, and change in the company's organisational structure, and (iii) amendments to the company's articles of association, as stipulated in the articles of association of Dayao Green Energy shall be passed by shareholders representing two-thirds or more of the voting rights of all the shareholders. Resolutions on other matters shall be passed by shareholders representing a majority of the voting rights of all the shareholders.

According to the Equity Transfer Agreement and the articles of association of Dayao Green Energy, resolutions on, the change in composition or structure of equity interests of Dayao Green Energy and the winding up and dissolution of Dayao Green Energy will require approval of all shareholders of Dayao Green Energy.

Composition of Director, Supervisor and Senior Management of Dayao Green Energy

Dayao Green Energy will have one director who shall be nominated and appointed by the Vendor.

Dayao Green Energy will have one supervisor who shall be nominated and appointed by the Vendor.

LETTER FROM THE BOARD

Dayao Green Energy shall have one general manager, two deputy general managers and one chief financial officer. The general manager shall be nominated by the Vendor and appointed by the sole director of Dayao Green Energy. The Vendor shall be entitled to nominate one deputy general manager and the Company shall be entitled to nominate one deputy general manager, both of whom shall all be appointed by the sole director of Dayao Green Energy. The deputy general manager nominated by the Company shall have the right to access and monitor Dayao Green Energy's investment, operation, and financial information. The chief financial officer shall be nominated by the Vendor and appointed by the sole director of Dayao Green Energy.

Right of first refusal

According to the PRC Law, in the event that a shareholder of Dayao Green Energy wishes to transfer its equity interest in Dayao Green Energy to a third party that is not an existing shareholder of Dayao Green Energy, the other shareholder of Dayao Green Energy shall have the right of first refusal to acquire such equity interest.

Potential restructuring

The Company has been informed by the Vendor of the following potential restructuring in respect of Dayao Green Energy, among others: (i) the Yunnan Provincial Energy Group (as a limited partner) CCB (Beijing) Investment Fund Management Co., Ltd. (as the general partner) and CCB Trust Co., Ltd. (as a limited partner) have entered into a partnership agreement (the "**Partnership Agreement**"), so as to establish a private equity investment fund (the "**Yunnan Energy Green Energy Fund**"), expected to be established in the first half of 2024, that focuses on the investment in green energy projects in Yunnan Province, the PRC, including the Dayao Projects currently undertaken by Dayao Green Energy. Pursuant to the Partnership Agreement, the total capital contribution commitment of the Yunnan Energy Green Energy Fund will be RMB2,001 million, out of which the Yunnan Provincial Energy Group intends to subscribe for a total amount of RMB600 million. Since the Yunnan Provincial Energy Group is merely a limited partner of the Yunnan Energy Green Energy Fund, and its capital contribution commitment is less than 30% of the total capital contribution by the partners to the Yunnan Energy Green Energy Fund, the Yunnan Energy Green Energy Fund is an independent third party of the Company; and (ii) after establishment, the Yunnan Energy Green Energy Fund will acquire a majority of equity interest in Dayao Green Energy held by the Vendor (the final percentage of equity interest of which will be determined based on the parties' negotiations and taking into account other factors, including the value of Dayao Green Energy to be appraised by an independent valuer as required under the relevant laws and requirements in the PRC), on the conditions that (a) the Yunnan Energy Green Energy Fund will not participate in the daily operation and management of Dayao Green Energy, and will only be entitled to enjoy the voting and dividend rights as set out in Dayao Green Energy's articles of association, and (b) Dayao Green Energy will continue to be a subsidiary of the Vendor, and the financial information of Dayao Green Energy will continue to be consolidated into the financial statements of the Vendor. As at the Latest Practicable Date, no definite plans have been approved and no definitive agreements have been entered into in respect of the transfer of the Vendor's equity interest in Dayao Green Energy to the Yunnan Energy Green Energy Fund, which, as advised by the Vendor, is expected to complete by September 2024.

LETTER FROM THE BOARD

For the avoidance of doubt, despite the above potential restructuring, the Vendor will remain the controller of Dayao Green Energy and will continue to lead the daily business operation and management of Dayao Green Energy. As such, assuming that the Independent Shareholders' approval is obtained at the SGM and the Transactions are proceeded, the abovementioned potential restructuring exercises would not have material impacts on the Group's interest in Dayao Green Energy.

3. REASONS FOR BENEFITS OF ENTERING INTO THE TRANSACTIONS

The parties believe that the Dayao Projects represent an attractive opportunity with potential for growth. Given that Yunnan Provincial Energy has established business network and extensive industry resources in international and domestic green energy projects, the Directors are of the view that the cooperation with Yunnan Provincial Energy in the Dayao Projects is in line with the Company's strategic objective of investing in green energy projects. The Directors are of the view that the participation in the investment in the Dayao Projects will provide the Company with further experience in the investment and operation of green energy projects, so as to better support the Company implementing its next strategic arrangement to develop the green energy market in Southeast Asia. The Dayao Projects themselves represent a good opportunity for the Group to improve its profitability, thereby enhancing the Group's long term growth and creating value for the Shareholders.

In April 2022, the Vendor and Dayao County People's Government entered into the Cooperation Agreement I, pursuant to which, among others, the Vendor shall have the exclusive right to invest and develop certain green energy power generation stations, with a total construction scale (installed capacity) of 45,000 kilowatts, in Bohou Village, Dayao County, Chuxiong Prefecture, Yunnan Province, the PRC. In November 2022, the Vendor and Dayao County People's Government entered into the Cooperation Agreement II, pursuant to which, among others, (i) Dayao County People's Government shall screen out a list of new energy base projects and land plots in Dayao County, Chuxiong Prefecture, Yunnan Province, the PRC, and (ii) the Vendor shall have the exclusive right to invest and develop certain green energy power generation stations, with a total construction scale (installed capacity) of not less than 600,000 kilowatts, in the selected area. The total investment amount of the Dayao Projects is estimated to be approximately RMB3,250 million, which is expected to be financed as to approximately 20% by shareholders' capital contribution and as to approximately 80% by external financing, after taking into account (i) the minimum capital ratio for investment in fixed assets of the electricity project (being no less than 20%), according to the Notice of the State Council on Adjusting and Improving the Capital Fund System for Fixed Asset Investment Projects (No. 51 [2015] of the State Council) (國發[2015] 51號 - 國務院關於調整和完善固定資產投資專案資本金制度的通知), published by the State Council of the PRC, (ii) the minimum capital requirements for external financing and (iii) the capital structure for similar types of new green energy projects of the Yunnan Provincial Energy Group. As at the Latest Practicable Date, Dayao Green Energy has obtained from PRC independent commercial banks term loan facilities with an aggregate principal amount of approximately RMB1,447.6 million for a term of 15 years, bearing interest at the rate of 2.5% per annum, and Dayao Green Energy is in discussion with certain PRC independent commercial banks for additional loan facilities to fund the projects. The development and operation period of the Dayao Projects is 25 years from the date of the relevant land transfer agreement, and the project will be transferred to Dayao County People's Government at nil consideration upon the expiration of such period. The Vendor has subsequently carried out the preliminary work and obtained various requisite

LETTER FROM THE BOARD

permits and government approvals for certain photovoltaic solar power generation stations, including approvals related to environmental impact assessment and construction permits. It was agreed and stated in the Cooperation Agreements that the Vendor would establish a subsidiary as the project company for the investment, construction, operation and management of the abovementioned green energy power generation stations, and all the rights and obligations of the Vendor under the Cooperation Agreements would vest in such subsidiary.

Dayao Green Energy has been established by the Vendor as the sole designated legal entity for the investment, construction, operation and management of the Dayao Projects. On 13 July 2023, Dayao Green Energy entered into the EPC Agreement with 中國電建集團昆明勘测設計研究院有限公司 (China Power Construction Corporation Kunming Survey and Design Institute Co., Ltd.*, an independent third party) for the construction work of six photovoltaic solar power generation stations with a total installed capacity of approximately 523,000 kilowatts under the Dayao Projects, which has commenced as at the Latest Practicable Date and is expected to complete in the first half of 2024. Following completion of the construction and grid connection, Dayao Green Energy shall commence the commercial operation of the abovementioned six photovoltaic solar power generation stations in the region, with recurring revenue expected to be generated from the second half of 2024 onward.

Having considered (i) the growth potential of the Dayao Projects, in which the relevant power generation stations are located in Dayao County, Chuxiong Prefecture, Yunnan Province, one of the best development areas for photovoltaic resources in the PRC, (ii) the requisite permits and government approvals for the Dayao Projects obtained and the significant development and construction progress made for the six photovoltaic solar power generation stations, (iii) the expected completion of the relevant development and construction work and commencement of commercial operations for the six photovoltaic solar power generation stations in the first half of 2024, which will then bring meaningful revenue streams to Dayao Green Energy, and (iv) the fact that investment in new energy projects in full business operation may require the investor to pay a consideration with a premium, as opposed to the Transactions, where the Company is regarded as one of the initial investors to make capital contribution according to its equity interest in Dayao Green Energy, the Company is of the view that the participation in the investment in the Dayao Projects will enable the Group not only to implement its strategic arrangement to develop the green energy projects, but also expand income stream and improve its profitability.

Given the nature and size of the Dayao Projects, the Directors consider that a minority interest in Dayao Green Energy would be an appropriate complement to the Group's existing businesses. The capital contribution into Dayao Green Energy by the Company is intended to be funded by internal resources of the Group. As at the Latest Practicable Date, the Company has no intention to acquire additional interest in Dayao Green Energy. The Company has also considered certain overseas and domestic green energy projects from the Yunnan Provincial Energy Group and independent third parties. Having regard to, among others, the investment size, the project particulars (such as the geographical location, development status, timetable and cash generation ability), the potential business and credit risks associated with projects in overseas, the Company considers, on balance, the participation in the investment in the Dayao Projects is the most appropriate new energy projects that are currently available.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Dayao Green Energy is indirectly wholly-owned by Yunnan Provincial Energy. The Yunnan Provincial Energy Group is mainly engaged in, among other things, investment and management of electric power, green energy, coal energy, new energy and other electric-related resources, investment planning and its technical, consulting and information services, and joint investment of natural gas resources and the pipe networks. As at 31 December 2022, the consolidated asset of the Yunnan Provincial Energy Group was approximately RMB251.1 billion and it recorded revenue of approximately RMB126.1 billion for the year ended 31 December 2022. The Yunnan Provincial Energy Group was ranked 204th among China's top 500 enterprises in 2023, in terms of operating income in 2022 as announced by China Enterprise Confederation (中國企業聯合會) and China Enterprise Directors Association (中國企業家協會). As at 31 December 2022, the Yunnan Provincial Energy Group's consolidated installed capacity was approximately 20.3 million kilowatts, accounting for about 20% of total installed capacity in Yunnan Province and about 80% of which are installed capacity related to green energy. The above demonstrated that the Yunnan Provincial Energy Group possess the extensive experience and expertise in the construction and development of green energy projects.

Following completion of the Transactions, the Vendor will remain as the controlling shareholder of Dayao Green Energy and will continue to lead the daily business operation and management of Dayao Green Energy. The Group would not only leverage the Yunnan Provincial Energy Group's advantages and influence in the fields of green energy, but also take a pro-active role in the management of Dayao Green Energy and the Dayao Projects, by nominating a representative to the management team to participate in the daily business operation and management of Dayao Green Energy, and oversee the investment, operating and financing activities of Dayao Green Energy. In addition, certain reserved matters require approval from all shareholders of Dayao Green Energy including the Company. As such, the Directors are of the view that there are appropriate measures in place to monitor and protect the Group's interest in Dayao Green Energy.

Taking into consideration of the above, the Directors consider that the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

4. INFORMATION OF THE PARTIES

Dayao Green Energy

Dayao Green Energy is a company established in the PRC with limited liability on 10 April 2023. The main business activities of Dayao Green Energy will comprise of: power generation, transmission and supply (distribution); technical services for solar power generation; technical services for wind power generation; technology services, technology development, technology consultation, technology exchange, technology transfer and technology promotion; development of wind farm related systems; engineering management services; energy-saving management services; photovoltaic electricity generation equipment rental; photovoltaic equipment and components manufacturing; photovoltaic equipment and components sales. As at the Latest Practicable Date, Dayao Green Energy is a wholly-owned subsidiary of the Vendor. Given that the Vendor established Dayao Green Energy in April 2023 and did not acquire it from a third party, there is no original acquisition cost of the equity interest in Dayao Green Energy.

As confirmed by the Vendor and according to the Cooperation Agreements entered into between the Vendor and Dayao County People's Government, Dayao Green Energy is the sole designated legal entity for the investment, construction, operation and management of the Dayao Projects.

Currently, Dayao Green Energy is focusing on six projects, which are gigawatt-level photovoltaic solar power generation projects in Dayao County, with a total installed capacity of 523,000 kilowatts. Dayao County is located in Chuxiong Prefecture, Yunnan Province, with an average annual sunshine of 2,526 hours, average frost period of 56.8 days, relative humidity of 65%, and wind speeds of 3.5 meters per second. The total annual radiation dose in Dayao County ranges from 4,500 to 6,300 megajoules per square metre, which is one of the best development areas for photovoltaic resources in Yunnan Province. Further details of the six projects are as follows:

Project name	Location	Approved installed capacity (kilowatts)	Expected investment amount (RMB'000)	Estimated annual on-grid power generation (ten thousand kilowatt hour)	Estimated average annual utilization (hours)	Estimated annual reduction coal consumption (ten thousand tons)
1. Dayao County Yangjia Village photovoltaic project	Yangjia Village, Shiyang Town	120,000	707,511	21,366	1,467	6.50
2. Dayao County Dalongtan photovoltaic project	Dalongtan Village, Shiyang Town	60,000	347,445	10,875	1,469	3.25

LETTER FROM THE BOARD

Project name	Location	Approved installed capacity (kilowatts)	Expected investment amount (RMB'000)	Estimated annual on-grid power generation (ten thousand kilowatt hour)	Estimated average annual utilization (hours)	Estimated annual reduction coal consumption (ten thousand tons)
3. Dayao Baolian photovoltaic project	Xiaohe Village & Daping Village, Shiyang Town	50,000	301,011	9,061	1,476	2.79
4. Dayao County Xiaozhuyuan photovoltaic project	Xinjie Town, Dayao County	158,000	870,785	28,036	1,461	8.27
5. Dayao County Xiaoliyuan photovoltaic project	Liwu Village & Xiaoliyuan Village, Shiyang Town	120,000	689,168	21,231	1,465	6.54
6. Dayao County Xiaohedi photovoltaic project	Xiaohedi, Xinjie Town	15,000	89,962	2,708	1,452	0.82
		523,000	3,005,882			

As of the Latest Practicable Date, over 30% of the development and construction work of the above six projects have been completed, and the photovoltaic equipment of two projects have been installed. The development and construction work of the six photovoltaic solar power generation stations is expected to complete, with grid connection, in the second quarter of 2024.

Set out below is the summary of financial information of Dayao Green Energy for the period from 10 April 2023 (date of incorporation) to 31 December 2023, as extracted from the unaudited management accounts of Dayao Green Energy:

	For the period from 10 April 2023 (date of incorporation) to 31 December 2023 RMB
Revenue	0
Net profit before taxation	0
Net profit after taxation	0

LETTER FROM THE BOARD

Based on its unaudited management accounts, Dayao Green Energy had total assets of approximately RMB411.4 million, total liabilities of approximately RMB241.9 million and net assets of approximately RMB169.5 million respectively as at 31 December 2023.

Yunnan Provincial Energy

Yunnan Provincial Energy is a company established in the PRC and is an important provincial state-owned backbone enterprise with energy, modern logistics, and new green energy materials as its three main businesses and is an important platform for the implementation of energy strategy as well as the reform and innovative development of the energy industry in Yunnan Province. The Yunnan Provincial Energy Group takes the initiative to take charge of national energy security, and keep the top priorities of the Belt and Road Initiative, centering on the vision and goal of “building a first-class domestic green energy enterprise”, accelerating the development of greening, marketization, integration and digitization, strengthening the breakdown segments of the core business of energy namely “eight + X”, which consists of “wind power, photovoltaic power, hydropower, thermal power, natural gas, coal, modern logistics, new materials, and new energy track”.

As at the Latest Practicable Date, Yunnan Provincial Energy is (i) approximately 30.99% owned by 雲南省投資控股集團有限公司 (Yunnan Investment Holding Group Co., Ltd.*) (“**Yunnan Investment Holding**”), which is in turn 90% owned by 雲南省人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Yunnan Provincial People’s Government of the PRC*) (“**Yunnan SASAC**”), (ii) approximately 27.85% owned by Yunnan SASAC, (iii) approximately 13.94% owned by 雲南雲投資本營運有限公司 (Yunnan Yun Investment Capital Operation Co., Ltd.*), which is in turn approximately 72.99% owned by Yunnan Investment Holding, (iv) approximately 11.52% owned by 雲南溢能新能源發展有限責任公司 (Yunnan Yineng New Energy Development Co., Ltd.*), which is in turn wholly owned by Yunnan Investment Holding, and (v) approximately 5.24% owned by 雲南省資產管理有限公司 (Yunnan Asset Management Co., Ltd.*), which is in turn wholly owned by Yunnan Investment Holding. The remaining 10.46% equity interest of Yunnan Provincial Energy are owned by certain companies (each holding less than 10%).

The Vendor

The Vendor is a company established in the PRC and its main business activities include power generation, transmission and supply (distribution): technical services for solar power generation; technical services for wind power generation; technology services, technology development, technology consultation, technology exchange, technology transfer and technology promotion; development of wind farm related systems; engineering management services; energy-saving management services; photovoltaic electricity generation equipment rental; photovoltaic equipment and components manufacturing; photovoltaic equipment and components sales. The Vendor is an indirect wholly-owned subsidiary of Yunnan Provincial Energy.

LETTER FROM THE BOARD

Yunnan Energy Investment (HK)

Yunnan Energy Investment (HK) is a company established in Hong Kong with limited liability, and it is an investment holding company and through its subsidiaries, is mainly engaged in hydropower, natural gas power generation, power grids, international energy engineering and international energy finance. Yunnan Energy Investment (HK) is a wholly-owned subsidiary of Yunnan Provincial Energy and an intermediate holding company of the Company.

The Group

The Group is principally engaged in, among others, (i) the provision of distribution and after-sales services in the PRC for different analytical instruments, including chromatographs, spectrophotometers, electronic microscopes, life science and general laboratory instruments, with specialised and customised hardware and software, to provide solutions and facilitate scientific analysis and testing; and (ii) the trading and supply chain business on diversified industrial and consumer products.

5. BOARD APPROVAL

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, each of Mr. HU Xiangwei, Ms. ZHU Yingxue, Mr. WANG Jin and Mr. SONG Henan, each an executive Director, holds directorship(s) or acts as senior management in Yunnan Energy Investment (HK), however, each of them does not have any position in Yunnan Provincial Energy and the Vendor, and does not have any shareholding, directly or indirectly, in the Company, Yunnan Provincial Energy and the Vendor. None of the Directors is regarded as having a material interest in the Transactions. Accordingly, no Director was required to abstain from voting on the Board resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder.

6. LISTING RULES IMPLICATIONS

As at Latest Practicable Date, Yunnan Provincial Energy and its associates control or are entitled to exercise control over approximately 73.05% of the total issued share capital of the Company. Dayao Green Energy is a wholly-owned subsidiary of the Vendor and the Vendor is an indirect wholly-owned subsidiary of Yunnan Provincial Energy. Therefore, the Vendor and Dayao Green Energy are associates of Yunnan Provincial Energy and connected persons of the Company for the purpose of Chapter 14A of the Listing Rules, and accordingly the Transactions constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios of the Transactions is above 5%, the Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, as one or more of the applicable percentage ratios of the Transactions is more than 5% but less than 25%, the Transactions also constitute discloseable transaction of Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

7. INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising of all the independent non-executive Directors, namely, Mr. SHI Fazhen, Mr. LIU Zongliu and Ms. JING Pilin has been established to consider the Equity Transfer Agreement and the transactions contemplated thereunder and to advise and make recommendations to the Independent Shareholders as to how to vote at the SGM on the resolution in relation to the Equity Transfer Agreement and the transactions contemplated thereunder. No member of the Independent Board Committee has any material interest in the Equity Transfer Agreement and the transactions contemplated thereunder.

The Company has, with the approval of the Independent Board Committee, appointed the Independent Financial Adviser in accordance with the requirements under the Listing Rules to advise the Independent Board Committee and the Independent Shareholders on the terms of the Equity Transfer Agreement and the transactions contemplated thereunder.

8. SGM

The SGM will be convened and held at Room 2008, 20/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and via live audio-visual webcast or live audio-only stream on Tuesday, 19 March 2024 at 10:00 a.m. (Hong Kong time) (or any adjournment thereof) for, the Independent Shareholders to approve the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM.

In accordance with the Listing Rules, any Shareholder who has a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder shall abstain from voting on the resolution to approve the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, Yunnan Provincial Energy and its associates, namely Baodi International Investment, who together are interested in 201,196,995 Shares, representing approximately 73.05% of the total issued share capital of the Company, will be required to abstain from voting on the resolution at the SGM accordingly. Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder and will be required to abstain from voting on the resolution to approve the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM.

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Shareholders at the SGM will be taken by poll and the poll results will be published on the websites of the Stock Exchange, the SGX-ST and the Company after the SGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

9. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 14 March 2024 to Tuesday, 19 March 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to determine the identity of shareholders who are entitled to attend and vote at the SGM, all share 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 for registration not later than 4:30 p.m., Wednesday, 13 March 2024 (for shareholders in Hong Kong), or with the Company's share transfer agent in Singapore, Tricor Barbinder Share Registration Services at 9 Raffles Place, #26-01, Republic Plaza Tower I, Singapore 048619 for registration not later than 5:00 p.m., Wednesday, 13 March 2024 (for shareholders in Singapore).

10. PROXY ARRANGEMENT AND ACTION TO BE TAKEN BY SHAREHOLDERS

Whether or not you are able to attend the SGM, please 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 Centre, 16 Harcourt Road, Hong Kong (for Shareholders in Hong Kong), or the Company's share transfer agent in Singapore, Tricor Barbinder Share Registration Services at 9 Raffles Place, #26-01, Republic Plaza Tower I, Singapore 048619 (for Shareholders in Singapore) as soon as possible and in any event not later than forty-eight (48) hours before the time appointed for the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or any adjournment thereof) should you so wish. In such event, the relevant form of proxy shall be deemed to be revoked.

11. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 21 to 22 of this Circular and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Equity Transfer Agreement and the transactions contemplated thereunder as well as the principal factors and reasons considered by it in arriving to such advice as set out on pages 23 to 43 of this Circular.

The Independent Board Committee, having considered the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its opinion in respect of the Equity Transfer Agreement and the transactions contemplated thereunder, concurs with the views of the Independent Financial Adviser that, while the Equity Transfer Agreement and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM.

LETTER FROM THE BOARD

The Independent Financial Adviser, having taken into account the principal factors and reasons therein, considers that while the Equity Transfer Agreement and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Financial Adviser advises the Independent Board Committee to recommend, and it recommends, the Independent Shareholders to vote in favor of the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM.

The Board (including the independent non-executive Directors) considered that while the Equity Transfer Agreement and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommends the Independent Shareholders to vote in favour of the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM.

12. GENERAL

Shareholders and potential investors of the Company should note that the Equity Transfer Agreement and the transactions contemplated thereunder are subject to a condition precedent, namely the obtaining of the approval by the Independent Shareholders of the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM in accordance with the Listing Rules. Therefore, the Equity Transfer Agreement and the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares and, in case of doubt, to seek independent advice from professional or financial advisers.

13. ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the Appendix to this Circular.

Yours faithfully
For and on behalf of the Board
Yunnan Energy International Co. Limited
HU Xiangwei
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this Circular:



雲能國際
YUNNAN ENERGY INTERNATIONAL

Yunnan Energy International Co. Limited

雲能國際股份有限公司*

(Incorporated in Bermuda with limited liability)

(Hong Kong Stock Code: 1298)

(Singapore Stock Code: T43)

23 February 2024

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTIONS
ACQUISITION OF 6.67% EQUITY INTEREST
IN DAYAO GREEN ENERGY**

We refer to the circular issued by the Company to its Shareholders dated 23 February 2024 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Halcyon Capital Limited has been appointed as independent financial adviser to advise us and the Independent Shareholders in this respect.

Your attention is drawn to the letter from the Independent Financial Adviser to us and the Independent Shareholders as set out on pages 23 to 43 of the Circular containing the advice of the Independent Financial Adviser in respect of the Equity Transfer Agreement and the transactions contemplated thereunder.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have considered the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its opinion in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. We concur with the views of the Independent Financial Adviser that, while the Equity Transfer Agreement and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution in respect of the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM.

Yours faithfully,

The Independent Board Committee

Mr. SHI Fazhen

Mr. LIU Zongliu

Ms. JING Pilin

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



11/F, 8 Wyndham Street
Central
Hong Kong

23 February 2024

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONNECTED AND DISCLOSEABLE TRANSACTIONS ACQUISITION OF 6.67% EQUITY INTEREST IN DAYAO GREEN ENERGY

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the proposed acquisition of 6.67% equity interest in Dayao Green Energy pursuant to the Equity Transfer Agreement entered into between the Company, the Vendor and Dayao Green Energy, in which, the Company would (i) acquire 6.67% equity interest in Dayao Green Energy from the Vendor at nil consideration; and (ii) make capital contribution of RMB50,000,000 into Dayao Green Energy (the “**Transactions**”).

Details of the Transactions are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 23 February 2024 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meaning as those defined in the Circular.

Dayao Green Energy is a wholly-owned subsidiary of the Vendor and the Vendor is an indirect wholly-owned subsidiary of Yunnan Provincial Energy. Yunnan Provincial Energy and its associates control or are entitled to exercise control over approximately 73.05% of the entire issued share capital of the Company. By virtue of Yunnan Provincial Energy’s interest in the Company, Yunnan Provincial Energy is therefore a connected person of the Company. Dayao Green Energy and the Vendor, being subsidiaries of Yunnan Provincial Energy, are associates of Yunnan Provincial Energy and connected persons of the Company. Accordingly, the Transactions constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As one or more of the applicable percentage ratios of the Transactions is above 5%, the Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, as one or more of the applicable percentage ratios of the Transactions are more than 5% but less than 25%, the Transactions also constitutes a discloseable transaction of Company under Chapter 14 of the Listing Rules.

In accordance with the Listing Rules, any Shareholder who has a material interest in the Equity Transfer Agreement and the transactions contemplated thereunder shall abstain from voting on the resolution to approve the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, Yunnan Provincial Energy and its associates, namely Baodi International Investment, who together are interested in 201,196,995 Shares, representing approximately 73.05% of the total issued share capital of the Company, will be required to abstain from voting on the relevant resolution at the SGM accordingly.

The Independent Board Committee comprising all the independent non-executive Directors, Mr. SHI Fazhen, Mr. LIU Zongliu and Ms. JING Pilin has been established to advise the Independent Shareholders as to whether the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Independent Shareholders as a whole and how to vote on the relevant resolution in the SGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In the last two years from the date of our appointment, we have no other relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid/payable to us in connection with our appointment, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence. We are therefore independent under the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Transactions.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or the management of the Company and have assumed that all such information, financial information and facts and any representations made to us or referred to in the announcement of the Company dated 19 January 2024 and the Circular, for which they are fully responsible, are true, accurate and complete as at the time they were made and as at the date hereof and made after due and careful inquiry by the Directors and/or management of the Company. We have been advised by the Directors and/or the management of the Company that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our review and analyses were based upon, among others, the information provided by the Company including the Equity Transfer Agreement and certain published information from the public domain. We have also discussed with the Directors and/or the management of the Company with respect to the terms of and reasons for the transactions contemplated under the Equity Transfer Agreement and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, creditability, financial position or prospects of the Group, Dayao Green Energy, the Vendor, Yunnan Provincial Energy, Baodi International Investment and each of their respective associates, and the parties involved in the transactions contemplated under the Equity Transfer Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the transactions contemplated under the Equity Transfer Agreement, we have considered the following principal factors and reasons:

1. Background information of the Group

The Group principally engaged in the provision of distribution and after-sales services in the PRC for different analytical instruments and medical devices, including chromatographs, spectrophotometers, electronic microscopes, life science and general laboratory instruments, with specialised and customised hardware and software, to provide solutions and facilitate scientific analysis and testing (the “**Distribution Business**”); and the trading and supply chain business on diversified industrial and consumer products (the “**Supply Chain Business**”).

Financial performance

Set out below is a table summarizing certain key financial information of the Group extracted from the consolidated statement of profit or loss and other comprehensive income of the 2022 Annual Report and the 2023 Interim Report:

	For the year ended 31 December 2021 (Audited)	For the year ended 31 December 2022 (Audited)	Six months ended 30 June 2022 (Unaudited)	Six months ended 30 June 2023 (Unaudited)
<i>HK\$'000</i>				
Revenue	84,106	288,089	112,608	106,779
Gross profit	3,112	13,565	5,197	1,796
Loss for the year/period	(26,952)	(8,877)	(3)	(5,874)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Revenue

Revenue in first half of 2023 (“**HY2023**”) decreased by 5.2% to HK\$106.8 million from HK\$112.6 million in first half of 2022 (“**HY2022**”), which was mainly attributable to the decreased revenue contribution from the Supply Chain Business due to decreased orders from customers in the steel and coffee powder industry. Such decrease was partly offset by the increased revenue contribution of the Distribution Business resulting from increase in sales order in relation to distribution of medical devices.

The Group’s total revenue for the year ended 31 December 2022 (“**FY2022**”) increased by HK\$204.0 million or 242.6% to HK\$288.1 million from HK\$84.1 million during the year ended 31 December 2021 (“**FY2021**”). Such increase was mainly attributable to the increase in revenue from sales of goods in the Supply Chain Business as the Group continues to develop the Supply Chain Business, aiming to extend its business to cover not only construction materials and medical devices, but also consumer products and agricultural commodities to meet the customers’ needs. Such increase in revenue from the Supply Chain Business was partially offset by the decrease in revenue from the Distribution Business by HK\$4.6 million or 36.8% to HK\$7.9 million in FY2022 from HK\$12.5 million in FY2021 due to both Mainland China and Hong Kong were clouded by the uncertainties arising from the COVID-19 outbreak of which the prolonged control and lockdown measures have reduced sales activities and delayed or suspended equipment purchases which resulted in a decrease in revenue from the Distribution Business.

Gross profit and gross profit margin

The gross profit in HY2023 decreased by 65.4% to HK\$1.8 million from HK\$5.2 million in HY2022. The decrease in the gross profit of the Supply Chain Business is mainly caused by the ongoing inventory destocking cycle by end customers which led to a decline in demand for the Group’s products. The gross profit margin in HY2023 was 1.7% compared to 4.6% in HY2022. The decrease in gross profit margin is mainly attributable to the decrease in proportion of revenue of the Supply Chain Business in overseas markets, mainly in Asia (other than the PRC) and other areas which had a relatively higher gross profit margin.

The gross profit in FY2022 increased by 338.7% to HK\$13.6 million from HK\$3.1 million in FY2021. The gross profit margin in FY2022 was 4.7% compared to 3.7% in FY2021. The gross profit margin increased mainly due to the increased revenue contribution from the Supply Chain Business which enjoyed a higher gross profit margin in FY2022.

Loss for the year/period

The Group’s loss for HY2023 increased to HK\$5.9 million from HK\$3,000 in HY2022, mainly due to (i) the decrease in the gross profit of the Supply Chain Business as a result of the ongoing inventory destocking cycle by end customers which led to a decline in demand for the Group’s products; (ii) the decrease in reversal of impairment losses of financial assets which were recorded in the prior period; and (iii) the increase in operating expenses.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With the increase in both gross profit and other income and gains, the decrease in other expenses due to the absence of the write-off of inventories and the charges of warehouse storage and logistics service, while partially offset by the increase in selling and distribution expenses, administrative expenses and finance cost, the Group's loss for FY2022 decreased by 67.0% to HK\$8.9 million from HK\$27.0 million in FY2021.

Financial position

Set out below is a table summarizing certain key financial information of the Group extracted from the consolidated statement of financial position of the 2023 Interim Report:

<i>HK\$'000</i>	As at 31 December 2022 (Audited)	As at 30 June 2023 (Unaudited)
Total non-current assets	126	162
Cash and bank balances	43,090	46,413
Other current assets	178,629	320,688
Total current liabilities	50,462	203,846
Net assets	171,383	163,417

Assets

As at 30 June 2023, assets of the Group apart from cash and bank balances amounted to HK\$46.4 million, also comprised of prepayments, deposits and other receivables of HK\$195.5 million, trade receivables of HK\$77.1 million and inventories of HK\$48.2 million. Prepayments mainly comprise advance payments for purchase of inventories held for trading and other expenses.

As at 31 December 2022, assets of the Group mainly comprised of cash and bank balances amounted to HK\$43.1 million, prepayments, deposits and other receivables of HK\$110.6 million, trade receivables of HK\$44.6 million and inventories of HK\$23.5 million.

The increase in current assets from HK\$221.7 million as at 31 December 2022 to HK\$367.1 million as at 30 June 2023 was mainly due to the increase in prepayments in HY2023 as a result of the expansion of the Supply Chain Business during the period and the increase in deposits and other receivables which mainly comprised of tendering deposits and performance pledged deposits.

Liabilities

As at 30 June 2023, liabilities of the Group mainly comprised of loan from an intermediate holding company amounting to HK\$160.7 million.

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The loan balance as at 30 June 2023 was a loan advanced to the Group from Yunnan Energy Investment (HK) Co. Limited, an intermediate holding company, pursuant to a loan agreement dated 25 March 2023 entered into between the two parties with a total loan facility of RMB190.0 million. The loan is unsecured, bears interest at the rate of 4% per annum and has a maturity date of 24 March 2024, which could be repaid before the maturity date as mutually agreed between the two parties.

The substantial increase in loan from an intermediate holding company from HK\$29.4 million as at 31 December 2022 to HK\$160.7 million was attributable to the draw down of such loan facilities during HY2023 mainly for financing the Group's operating cashflow requirements.

2. Background to and reasons for the entering into of the Equity Transfer Agreement

The Group had been loss making since 2018. In the past three years due to the continuous impact of the COVID-19 pandemic and affected by the zero-Covid policy in China and its associated travel restrictions, it was difficult to transfer personnel and goods across regions, which had a continuous adverse impact on the Group's business operation in terms of business promotion and customer maintenance. Such travel restrictions had also increased the maintenance cost of the Distribution Business and delayed demand such as equipment renewal for existing customers. With the easing of the COVID-19 pandemic and the adoption of an open-door policy in the PRC, the Group actively expanded its Distribution Business and achieved a significant increase in business volume in the first half of 2023. The Group also actively expanded its business channels and continued to develop their Supply Chain Business. With such development the Group achieved substantial growth in 2022, with the revenue of international trade increasing by 4.5 times and the revenue of domestic trade increasing by 3.3 times as compared to 2021.

In 2023, the Group leverages on its extensive customer base established through the Distribution Business with over 30 years of operation, the extensive experience and network in the international supply chain sector of its management and staff, together with the support from the controlling shareholder of the Company, Yunnan Provincial Energy, continues to identify different potential customers for its Supply Chain Business. In addition, the Group participates in tender or quotation invitations from the existing and potential customers in both government and non-government sectors, and open tender for the provision of supply chain services. Nevertheless, due to the trend of "weakening demand, high-inventory and low-price level, and declining efficiency" in the market of international supply chain sector, the price and the sales in the Supply Chain Business were low which resulted in a decline in the Group's revenue contribution from its Supply Chain Business.

With the continuous impact on the weak international market towards the Group's operation and taking into consideration the loss-making condition of the Group, the Group had been exploring other income sources and investment opportunities.

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According to the interim report of the Group for HY2023, the Group have started to consider tapping into the development opportunities in international green energy project investment and to explore the expansion of the installed capacity of overseas energy projects and win more related construction tenders, to increase the revenue and profit contribution of these businesses and create returns for shareholders. The Group has been considering leveraging on Yunnan Provincial Energy's influence in the fields of green energy, modern logistics, digital economy and other industries in Yunnan Province and Southwest region of the PRC in order to broaden the Group's customer base and explore possibilities to increase the revenue streams, and create a global supply chain network.

As set out in the Letter from the Board, in April 2022 and November 2022, the Vendor and the Dayao County People's Government* (大姚縣人民政府) entered into the Cooperation Agreements where the Vendor will have exclusive rights to invest and develop green energy power stations in Dayao County (i.e. the Dayao Projects). Dayao Green Energy has been established by the Vendor as the sole designated legal entity for the investment, construction, operation and management of the Dayao Projects. In July 2023, Dayao Green Energy entered into the EPC Agreement with an independent third party for the construction work of six photovoltaic solar power generation stations with a total installed capacity of approximately 523,000 kilowatts under the Dayao Projects, which has commenced as at the Latest Practicable Date and is expected to be completed in the first half of 2024. Following completion of the construction and grid connection, Dayao Green Energy shall commence the commercial operation of the abovementioned six photovoltaic solar power generation stations in the region, with recurring revenue expected to be generated from the second half of 2024 onward.

As Yunnan Provincial Energy would like to introduce investors to the Dayao Projects and the Group has been exploring investment possibilities in the green energy sector as mentioned above, acquiring a minority interest in Dayao Green Energy will allow the Group to leverage on Yunnan Provincial Energy Group's relevant experience in the fields of green energy as set out in the section "Information of Yunnan Provincial Energy, Yunnan Provincial Energy Group and the Vendor" below and at the same time partake in the management and daily operation of Dayao Green Energy and the Dayao Projects. Having considered the aforesaid, the Company entered into the Equity Transfer Agreement with the Vendor and Dayao Green Energy to effectively take up 6.67% of equity interest in Dayao Green Energy.

The Directors believe that the Dayao Projects represents an attractive opportunity with potential for growth. Given that Yunnan Provincial Energy Group have established business network and extensive industry resources in international and domestic green energy projects, the Directors are of the view that the cooperation with Yunnan Provincial Energy Group in the Dayao Projects is in line with the Company's strategic objective of investing in green energy projects. The Dayao Projects themselves represent a good opportunity for the Group to improve the Group's earnings, thereby enhancing the Group's long-term growth and creating value for the Shareholders.

Taking into consideration of the above, the Directors consider that and we concur, the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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3. Information of Yunnan Provincial Energy, Yunnan Provincial Energy Group and the Vendor

Yunnan Provincial Energy and Yunnan Provincial Energy Group

Yunnan Provincial Energy is a company incorporated in PRC and is an important provincial state-owned backbone enterprise. It is principally engaged in three main businesses covering energy, modern logistics and new green energy materials. It is also an important platform for the implementation of energy strategy as well as the reform and innovative development of the energy industry in Yunnan Province.

Yunnan Provincial Energy Group is mainly engaged in, among other things, investment and management of electric power, green energy, coal energy, new energy and other electric-related resources, investment planning and its technical, consulting and information services, and joint investment of natural gas resources and the pipe networks. As at 31 December 2022, the consolidated asset of the Yunnan Provincial Energy Group was approximately RMB251.1 billion and it recorded revenue of approximately RMB126.1 billion for the year ended 31 December 2022. Yunnan Provincial Energy Group was ranked 204th among China's top 500 enterprises in 2023, in terms of operating income in 2022 as announced by China Enterprise Confederation (中國企業聯合會) and China Enterprise Directors Association (中國企業家協會). As at 31 December 2022, Yunnan Provincial Energy Group's consolidated installed capacity was approximately 20.3 million kilowatts, accounting for about 20% of total installed capacity in Yunnan Province and about 80% of which are installed capacity related to green energy.

Yunnan Provincial Energy Group takes the initiative to take charge of national energy security, and keep the top priorities of the Belt and Road Initiative, centering on the vision and goal of "building a first-class domestic green energy enterprise", accelerating the development of greening, marketization, integration and digitization, strengthening the breakdown segment of the core business of energy, namely "eight + X", which consists of wind power, photovoltaic power, hydropower, thermal power, natural gas, coal, modern logistics, new materials, and new energy track".

As at the Latest Practicable Date, Yunnan Provincial Energy is (i) approximately 30.99% owned by 雲南省投資控股集團有限公司 (Yunnan Investment Holding Group Co., Ltd.*) ("**Yunnan Investment Holding**"), which is in turn 90% owned by 雲南省人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Yunnan Provincial People's Government of the PRC*) ("**Yunnan SASAC**"), (ii) approximately 27.85% owned by Yunnan SASAC, (iii) approximately 13.94% owned by 雲南雲投資本營運有限公司 (Yunnan Yun Investment Capital Operation Co., Ltd.*), which is in turn approximately 72.99% owned by Yunnan Investment Holding, (iv) approximately 11.52% owned by 雲南溢能新能源發展有限責任公司 (Yunnan Yineng New Energy Development Co., Ltd.*), which is in turn wholly owned by Yunnan Investment Holding, and (v) approximately 5.24% owned by 雲南省資產管理有限公司 (Yunnan Asset Management Co., Ltd.*), which is in turn wholly owned by Yunnan Investment Holding. The remaining 10.46% equity interest of Yunnan Provincial Energy are owned by certain companies (each holding less than 10%).

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The Vendor

The Vendor is a company established in the PRC and its main business activities include power generation, transmission and supply (distribution); technical services for solar power generation; technical services for wind power generation; technology services, technology development, technology consultation, technology exchange, technology transfer and technology promotion; development of wind farm related systems; engineering management services; energy-saving management services; photovoltaic electricity generation equipment rental; photovoltaic equipment and components manufacturing; photovoltaic equipment and components sales. The Vendor is an indirect wholly-owned subsidiary of Yunnan Provincial Energy.

4. Information of Dayao Green Energy and the Dayao Projects

Dayao Green Energy

Dayao Green Energy is a company established in the PRC with limited liability on 10 April 2023. Its main business activities will comprise power generation, transmission and supply (distribution); technical services for solar power generation; technical services for wind power generation; technology services, technology development, technology consultation, technology exchange, technology transfer and technology promotion; development of wind farm related systems; engineering management services; energy-saving management services; photovoltaic electricity generation equipment rental; photovoltaic equipment and components manufacturing; photovoltaic equipment and components sales. As at the Latest Practicable Date, Dayao Green Energy is a wholly-owned subsidiary of the Vendor.

As confirmed by the Vendor and according to the Cooperation Agreements entered into between the Vendor and Dayao County People's Government, Dayao Green Energy is the sole designated legal entity for the investment, construction, operation and management of the Dayao Projects.

Dayao Green Energy while continuing to explore possible green energy projects, is currently focusing on six projects, which are gigawatt-level photovoltaic solar power generation projects in Dayao County, with a total installed capacity of 523,000 kilowatts. As set out in the letter from the Board, Dayao County is located in Chuxiong Prefecture, Yunnan Province, with an average annual sunshine of 2,526 hours, average frost period of 56.8 days, relative humidity of 65%, and wind speeds of 3.5 meters per second. The total annual radiation dose in Dayao County ranges from 4,500 to 6,300 megajoules per square metre. Further details of the six projects are extracted as follows:

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			Approved	Expected	Estimated	Estimated	Estimated
	Project name	Location	Installed capacity (kilowatts)	investment amount (RMB'000)	on-grid power generation (ten thousand kilowatt hour)	average annual utilization (hours)	reduction coal consumption (ten thousand tons)
1	Dayao County Yangjia Village photovoltaic project	Yangjia Village, Shiyang Town	120,000	707,511	21,366	1,467	6.50
2	Dayao County Dalongtan photovoltaic project	Dalongtan Village, Shiyang Town	60,000	347,445	10,875	1,469	3.25
3	Dayao Baolian photovoltaic project	Xiaohe Village & Daping Village, Shiyang Town	50,000	301,011	9,061	1,476	2.79
4	Dayao County Xiaozhuyuan photovoltaic project	Xinjie Town, Dayao County	158,000	870,785	28,036	1,461	8.27
5	Dayao County Xiaoliyuan photovoltaic project	Liwu Village & Xiaoliyuan Village, Shiyang Town	120,000	689,168	21,231	1,465	6.54
6	Dayao County Xiaohedi photovoltaic project	Xiaohedi, Xinjie Town	15,000	89,962	2,708	1,452	0.82
			<u>523,000</u>	<u>3,005,882</u>			

As of the Latest Practicable Date, over 30% of the development and construction work of the above six projects have been completed, and the photovoltaic equipment of two projects have been installed. The development and construction work of the six photovoltaic solar power generation stations is expected to complete, with grid connection, in the second quarter of 2024.

We have discussed with the management of the Company and understand that the investment amount of the projects comprises mainly the estimated construction costs for the projects which were determined according to the latest available market price or quotations for the construction of similar types of the projects.

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Set out below is the summary of financial information of Dayao Green Energy for the period from 10 April 2023 (being the date of incorporation) to 31 December 2023, as extracted from the unaudited management accounts of Dayao Green Energy:

**For the period from
10 April 2023
(date of incorporation) to
31 December 2023
RMB**

Revenue	–
Net profit before taxation	–
Net profit after taxation	–

As Dayao Green Energy was only incorporated on 10 April 2023, it has not recorded any revenue or profit for the period from its incorporation to 31 December 2023. As the Dayao Projects were under construction, all expenses in relation to the development of the Dayao Projects were capitalized as such, no profit or loss was recognized for the year ended 31 December 2023.

Based on the unaudited management accounts of Dayao Green Energy, as at 31 December 2023, (i) the total assets of Dayao Green Energy amounted to approximately RMB411.4 million, mainly including prepayments of RMB208.0 million and construction in progress of RMB173.6 million, representing approximately 92.8% of total assets of Dayao Green Energy; which was set off by (ii) total liabilities amounted to RMB241.9 million, mainly comprising short term bank and other borrowings amounted to approximately RMB183.8 million and account payables of RMB57.8 million. Dayao Green Energy maintained a net asset value of approximately of RMB169.5 million as at 31 December 2023.

The Dayao Projects

The Dayao Projects are located in the Dayao County, Chuxiong Prefecture, Yunnan Province, the PRC.

In April 2022, the Vendor and Dayao County People's Government entered into the Cooperation Agreement I, pursuant to which, among others, the Vendor shall have the exclusive right to invest and develop certain green energy power generation stations, with a total construction scale (installed capacity) of 45,000 kilowatts, in Bohou Village, Dayao County, Chuxiong Prefecture, Yunnan Province, the PRC. In November 2022, the Vendor and Dayao County People's Government entered into the Cooperation Agreement II, pursuant to which, among others, (i) Dayao County People's Government shall screen out a list of new energy base projects and land plots in Dayao County, Chuxiong Prefecture, Yunnan Province, the PRC, and (ii) the Vendor shall have the exclusive right to invest and develop certain green energy power generation stations, with a total construction scale (installed capacity) of not less than 600,000 kilowatts, in the selected area. The total investment amount of the Dayao Projects estimated to be approximately RMB3,250 million, (with the above six projects' expected investment amount of RMB3,005.9 million), is expected to be financed by shareholders' capital contribution up to RMB750 million and the remaining by external financing. The shareholders' capital contribution of RMB750 million meets the minimum capital ratio for investment in fixed assets of the electricity project (being no less than 20%), according to the Notice of the State Council on Adjusting and Improving the Capital Fund System for Fixed Asset Investment Projects (No. 51 [2015] of the State Council) (國發[2015] 51號

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– 國務院關於調整和完善固定資產投資專案資本金制度的通知) (the “No. 51[2015] Notice”), published by the State Council of the PRC, the minimum capital requirements for external financing and has a capital structure which is in line with other similar new green energy projects of the Yunnan Provincial Energy Group. According to the Letter from the Board, as at the Latest Practicable Date, Dayao Green Energy has obtained from PRC independent commercial banks term loan facilities with an aggregate principal amount of approximately RMB1,447.6 million for a term of 15 years, bearing interest at the rate of 2.5% per annum without requiring any further financial assistance or guarantee from equity holders of Dayao Green Energy. As at the Latest Practicable Date, Dayao Green Energy is also in discussion with certain PRC independent commercial banks for additional loan facilities to finance the remaining funding requirements of the Dayao Projects. The development and operation period of the Dayao Projects is 25 years from the date of the relevant land transfer agreement, and the project will be transferred to Dayao County People’s Government at nil consideration upon the expiration of such period. The Vendor has subsequently carried out the preliminary work and obtained various requisite permits and government approvals for certain photovoltaic solar power generation stations, including approvals related to environmental impact assessment and construction permits. It was agreed and stated in the Cooperation Agreements that the Vendor would establish a subsidiary as the project company (i.e. Dayao Green Energy) for the investment, construction, operation and management of the abovementioned green energy power generation stations, and all the rights and obligations of the Vendor under the Cooperation Agreements would vest in such subsidiary.

Pursuant to the Cooperation Agreements entered into between the Vendor and Dayao County People’s Government, Dayao Green Energy is the sole designated legal entity for the investment, construction, operation and management of the Dayao Projects.

According to the “Letter from the Board” of this Circular, in July 2023, Dayao Green Energy entered into the EPC Agreement with 中國電建集團昆明勘測設計研究院有限公司 (China Power Construction Corporation Kunming Survey and Design Institute Co., Ltd.*, an independent third party) for the construction work of six photovoltaic solar power generation stations with a total installed capacity of approximately 523,000 kilowatts under the Dayao Projects, which has commenced as at the Latest Practicable Date and is expected to be completed in the first half of 2024. Following completion of the construction and grid connection, Dayao Green Energy shall commence the commercial operation of the abovementioned six photovoltaic solar power generation stations in the region, with recurring revenue expected to be generated from the second half of 2024 onward.

As at the Latest Practicable Date, the Company has no intention to acquire additional interest in Dayao Green Energy. The Company has also considered certain overseas and domestic green energy projects from the Yunnan Provincial Energy Group and independent third parties. Having regard to, among others, the investment size, the project particulars (such as the geographical location, development status, timetable and cash generation ability), the potential business and credit risks associated with projects in overseas, the Company considers, on balance, the participation in the investment in the Dayao Projects is the most appropriate new energy projects that are currently available.

Having considered (i) the nature and size of the Dayao Projects; (ii) the expertise and experience of Yunnan Provincial Energy Group in the construction and development of Dayao Projects and the green energy sector; and (iii) the current financial position of the Group, the Directors consider that, and we concur a minority interest in Dayao Green Energy would be an appropriate complement to the Group’s existing businesses.

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Outlook of the Dayao Projects

The PRC government has been placing an emphasis on the shift of energy sources to clean and renewable energy following the carbon neutrality pledge to strive to peak carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060. The State Council of the PRC published in June 2022 the 14th Five-Year Plan (FYP) on Renewable Energy Development (2021–2025) being the blueprint for China’s acceleration of its renewable energy expansion. The plan targets a 50% increase in renewable energy generation from (2.2 trillion kWh in 2020 to 3.3 trillion kWh in 2025), and establishes a 2025 renewable electricity consumption target share of 33 percent (up from 28.8 percent in 2020). In addition to setting out the overall targets, the plan also highlighted the key goal to accelerate the development of non-fossil energy to cover about 20% of the total energy consumption by 2025 and highlighted the promotion of development of wind power and photovoltaic power.

According to the data released by the National Energy Administration (NEA) in late December 2023, the country’s total installed power generation capacity was about 2.85 billion kilowatts at the end of November 2023, representing a 13.6% year-on-year increase. Among them, the installed capacity of solar power generation reached 560 million kilowatts, representing an increase of 49.9%. The NEA further predicted that the renewable energy generation output is anticipated to reach 3 trillion kWh in 2023, accounting for almost one third of China’s total electricity consumption.

Dayao Projects are located in the Dayao County, Chuxiong Prefecture, Yunnan Province, the PRC. According to the feasibility studies conducted by the Company on the Dayao Projects, as Yunnan is located on a plateau, most areas within the province is of a higher terrain and thus the atmosphere is relatively transparent, allowing a higher amount of solar radiation than plain areas. Dayao County has an average annual sunshine duration of 2,526 hours, with average frost period of 56.8 days, with relative humidity of 65%, and with wind speeds of 3.5 m/s. The total annual radiation dose in the Dayao County ranges from 4,500 to 6,300 MJ/m². The Dayao County possess suitable environmental factors for the development of photovoltaic projects. In addition, the Yunnan Government has also adopted policies to support the development of the photovoltaic power projects and to promote the usage of green energy.

In addition, we understand from the management of the Company that power generation in China is centralized and deployed nationwide by the power grid. According to statistics published by the National Bureau of Statistics in January 2024, China recorded a GDP of RMB126,058.2 billion for 2023, representing a year-on-year increase of 5.2%. Furthermore, according to the 2023-2024 National Electric Power Supply and Demand Situation Analysis and Forecast Report* (2023-2024年度全國電力供需情勢分析預測報告) published by China Electricity Council* (中國電力企業聯合會), the national society’s electricity consumption for 2023 was 9.22 trillion kWh, representing a 6.7% year-on-year increase. The growth rate was also 3.1% higher than that in 2022, implying that the national economy has improved and brought on the increase of electricity consumption. Considering that the economic rebound of China has in turn led to a larger energy consumption, the management expects that there will be a constant demand for electricity to be produced by the Dayao Projects.

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Given that, (i) the location of the Dayao Projects (i.e. Dayao County) possesses abundance of solar resources and is a suitable environment for the development of photovoltaic projects, (ii) it is expected that there will be an increase in demand of energy in line with the economic development of the PRC; and (iii) the development of Dayao Projects are in line with the policies of the local government and green energy is one of the key development targets of the PRC government in the coming years, we are of the view that Dayao Projects possess growth potential and is a suitable opportunity for the Company to tap into the green energy sector.

In addition, as set out in the Letter from the Board, we note that (i) the Dayao Projects has obtained the requisite permits and government approvals for the Dayao Projects and significant development and construction progress have been made for the six photovoltaic solar power generation stations as set out in the section “Information of Dayao Green Energy and the Dayao Projects” above; (ii) the expected completion of the relevant construction work and commencement of commercial operations for the six photovoltaic solar power generation stations in the first half of 2024, which will then bring meaningful revenue streams to Dayao Green Energy, and (iii) the fact that investment in new energy projects in full business operation may require the investor to pay a consideration with a premium, as opposed to the Transactions, where the Company is regarded as one of the initial investors to make capital contribution according to its equity interest in Dayao Green Energy, the Company is of the view that the participation in the investment in the Dayao Projects will enable the Group not only to implement its strategic arrangement to develop the green energy projects, but also expand income stream and improve its profitability.

Having considered the above factors contributing to the growth potential of the Dayao Projects, the Directors are of the view and we concur that the Transactions represent an attractive opportunity for the Company and is in line with the strategic objective of the Company to tap into investment opportunities in the green energy sector.

5. Principal terms of the Equity Transfer Agreement

The principal terms of the Equity Transfer Agreement are set out as follows:

Transfer of Equity Interest in Dayao Green Energy

The Vendor holds 100% of the equity interest of Dayao Green Energy as at the Latest Practicable Date. The Vendor has agreed to transfer 6.67% of the equity interest of Dayao Green Energy to the Company at nil consideration and the Company has agreed to make capital contribution to Dayao Green Energy according to its shareholding interest in Dayao Green Energy following completion of the Transactions (i.e. RMB50 million).

The nil acquisition consideration was determined after arm’s length negotiations between the Vendor and the Company on the consensus that the respective equity investment in the Dayao Projects of the Vendor and the Company shall be made by way of capital contribution into Dayao Green Energy in accordance with the proposed respective equity interest of the Vendor and the Company in Dayao Green Energy, i.e. 93.33% and 6.67% of the registered capital of Dayao Green Energy of RMB750,000,000 respectively.

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Registered Capital of Dayao Green Energy

The registered capital of Dayao Green Energy is RMB750 million, of which RMB169,500,000 has been paid up by the Vendor as at the Latest Practicable Date. The registered capital amount was determined after taking into account, among others, (i) the estimated aggregate investment amount of approximately RMB3,005.9 million as set out in the feasibility studies in respect of the six solar power generation projects, as further described in the section headed “Information of Dayao Green Energy and the Dayao Projects”, (ii) the minimum capital ratio for investment in fixed assets of the electricity project (being no less than 20%), according to the No. 51 [2015] Notice, published by the State Council of the PRC, (iii) the minimum capital requirements (being no less than 20%) for external financing, based on the discussions with various independent commercial banks in the PRC, and (iv) the capital structure for similar types of new green energy projects of the Yunnan Provincial Energy Group, which also follow the No. 51 [2015] Notice.

As discussed with the management of the Group and from the investment budget provided by Yunnan Provincial Energy Group to the Group on projects to be entered into in 2024 up to the Latest Practicable Date, we understand that the capital structure for similar types of new green energy projects invested by the Yunnan Provincial Energy Group also adopts a minimum capital ratio of 20%. Furthermore, we noted that certain projects on the investment budget had estimated investment cost per kilowatts comparable to the Dayao Projects.

Pursuant to the Equity Transfer Agreement, the Vendor and the Company have agreed to contribute capital by cash payment, after the registration procedures with the PRC administration of market regulation in relation to the transfer of approximately 6.67% equity interest in Dayao Green Energy from the Vendor to the Company has been completed. Capital contributions will be made by installments according to the funding requirement of the Dayao Projects and within one month upon receipt of the capital contribution request from Dayao Green Energy. If a shareholder fails to make capital contributions as required by the capital contribution request of Dayao Green Energy, such shareholder shall be temporarily restricted from exercising the right to request for profit distribution and the right to vote until the capital contribution has been made. Details of the capital contributions and equity interest in Dayao Green Energy upon completion of the Transactions are listed below:

Parties	Capital Contribution	Equity Percentage
The Vendor	RMB700,000,000	93.33%
The Company	RMB50,000,000	6.67%
Total	<u>RMB750,000,000</u>	<u>100%</u>

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We have discussed with the management of the Company and understand that the registered capital of the Dayao Green Energy was determined with reference to among others (i) the required capital of approximately RMB601 million which considered (a) the investment amount for the development of the six projects set out above in the section “Information of Dayao Green Energy and the Dayao Projects” amounting to approximately RMB3,005.9 million which considered mainly the estimated construction amount for each project; and (b) the minimum capital ratio for investment in fixed assets of the electricity project (being no less than 20%), according to the No. 51 [2015] Notice; and (ii) the remaining registered capital of approximately RMB149 million catering for the possible interest to be incurred during construction of the Dayao Projects and the expected investment amount for potential upcoming new energy projects with estimated total installed capacity of up to 122,000 kilowatts to be built in the Dayao County pursuant to the Cooperation Agreements entered into between the Vendor and the Dayao Government for the exclusive rights to develop photovoltaic projects in Dayao County covering a total installed capacity of 645,000 kilowatts.

Having considered the above the Directors are of the view and we concur with the view that the determination of the registered capital of Dayao Green Energy according to the above to be appropriate.

As set out in the Letter from the Board, based on the latest development timetable of the Dayao Projects provided by the Vendor and Dayao Green Energy, the development and construction work of the six photovoltaic solar power generation stations is expected to complete, with grid connection in the second quarter of 2024. Accordingly, shareholders of Dayao Green Energy, including the Company (subject to completion of the Transactions), are expected to make 90% of its committed capital contribution in the second quarter of 2024, and the remaining 10% shall be contributed in the second half of 2024.

Conditions precedent and effectiveness

The Equity Transfer Agreement shall become effective, conditional on the Company’s compliance with all applicable laws, rules and regulations (including but not limited to the Listing Rules) as regards the transactions contemplated under the Equity Transfer Agreement, including but not limited to the Company having obtained approval from the Independent Shareholders at the SGM.

As at the Latest Practicable Date, save for the Independent Shareholders’ approval, the Company is not aware of any other approvals, filings and consents that are required in accordance with the applicable laws, rules and regulations as regards the transactions contemplated under the Equity Transfer Agreement. The approval from the Independent Shareholders is not waivable and has not yet been fulfilled as of the Latest Practicable Date. Assuming the Independent Shareholders’ approval is obtained at the SGM and the Equity Transfer Agreement becomes effective on the same date, it is expected that the transfer of approximately 6.67% equity interest in Dayao Green Energy from the Vendor to the Company will complete in the second quarter of 2024.

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Completion of Equity Transfer

Within 30 days from the effective date of the Equity Transfer Agreement, the parties shall cooperate to complete the registration procedures with the PRC administration of market regulation in relation to the transfer of approximately 6.67% equity interest in Dayao Green Energy from the Vendor to the Company. All shareholders of Dayao Green Energy shall enjoy their shareholder rights and assume corresponding shareholder obligations in accordance with, among others, the Company Law of the PRC and the articles of association of Dayao Green Energy, including shareholder identity right, information right, dividend right, voting right, repurchase right and inquiry right.

Management of Dayao Projects

The Vendor entered into the Cooperation Agreements with Dayao County People's Government to obtain the right to develop the Dayao Projects. According to the Cooperation Agreements, the Vendor shall establish a separate project company in Dayao County (i.e. Dayao Green Energy) to be responsible for the development, construction, operation and management of the Dayao Projects. In order to expedite the development of the Dayao Projects, before Dayao Green Energy was duly established, all approval procedures in respect of the Dayao Projects, including pre-approval, approval and filings etc., were carried out in the name of the Vendor. After establishment of Dayao Green Energy, for the purpose of consistency, the Vendor continued to conduct the approval procedures of the Dayao Projects in its own name. The Vendor and Dayao County People's Government agreed that upon its establishment, Dayao Green Energy shall serve as the investment, construction, operation and management entity of the Dayao Projects and assume all rights and obligations of the Vendor relating to the Dayao Projects. For the sake of prudence, Yunnan Energy Investment (HK) has issued an undertaking dated 19 January 2024 in favour of the Company, pursuant to which Yunnan Energy Investment (HK) has agreed to compensate the Company any losses suffered arising from above approval procedures being carried out and obtained by the Vendor.

Yunnan Energy Investment (HK) is a company established in Hong Kong with limited liability, and it is an investment holding company and through its subsidiaries, is mainly engaged in hydropower, natural gas power generation, power grids, international energy engineering and international energy finance. Yunnan Energy Investment (HK) is a wholly-owned subsidiary of Yunnan Provincial Energy and an intermediate holding company of the Company.

Shareholders' meetings of Dayao Green Energy

According to the articles of association of Dayao Green Energy, the voting rights shall be exercised by the shareholders at shareholders' meetings in accordance with the proportion of capital contribution subscribed. Resolutions on important matters, including (i) reviewing and approving the company's provision of external guarantee, (ii) approving the merger, division, and change in the company's organisational structure, and (iii) amendments to the company's articles of association, as stipulated in the articles of association of Dayao Green Energy shall be passed by shareholders representing two-thirds or more of the voting rights of all the shareholders. Resolutions on other matters shall be passed by shareholders representing a majority of the voting rights of all the shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Equity Transfer Agreement and the articles of association of Dayao Green Energy, resolutions on, the change in composition or structure of equity interests of Dayao Green Energy and the winding up and dissolution of Dayao Green Energy will require approval of all shareholders of Dayao Green Energy.

Composition of Directors, Supervisors and Senior Management of Dayao Green Energy

Dayao Green Energy will have one director who shall be nominated and appointed by the Vendor. Dayao Green Energy will have one supervisor who shall be nominated and appointed by the Vendor. Dayao Green Energy shall have one general manager, two deputy general managers and one chief financial officer. The general manager shall be nominated by the Vendor and appointed by the sole director of Dayao Green Energy. The Vendor shall be entitled to nominate one deputy general manager and the Company shall be entitled to nominate one deputy general manager, both of whom shall all be appointed by the sole director of Dayao Green Energy. The deputy general manager nominated by the Company shall have the right to access and monitor Dayao Green Energy's investment, operation, and financial information. The chief financial officer shall be nominated by the Vendor and appointed by the sole director of Dayao Green Energy.

Right of first refusal

According to the PRC Law, in the event that a shareholder of Dayao Green Energy wishes to transfer its equity interest in Dayao Green Energy to a third party that is not an existing shareholder of Dayao Green Energy, the other shareholder of Dayao Green Energy shall have the right of first refusal to acquire such equity interest.

Potential Restructuring

The Company has been informed by the Vendor of the following potential restructuring in respect of Dayao Green Energy, among others: (i) the Yunnan Provincial Energy Group (as a limited partner) CCB (Beijing) Investment Fund Management Co., Ltd. (as the general partner) and CCB Trust Co., Ltd. (as a limited partner) have entered into a partnership agreement (the "**Partnership Agreement**"), so as to establish a private equity investment fund (the "**Yunnan Energy Green Energy Fund**"), expected to be established in the first half of 2024, that focuses on the investment in green energy projects in Yunnan Province, the PRC, including the Dayao Projects currently undertaken by Dayao Green Energy. Pursuant to the Partnership Agreement, the total capital contribution commitment of the Yunnan Energy Green Energy Fund will be RMB2,001 million, out of which the Yunnan Provincial Energy Group intends to subscribe for a total amount of RMB600 million. Since the Yunnan Provincial Energy Group is merely a limited partner of the Yunnan Energy Green Energy Fund, and its capital contribution commitment is less than 30% of the total capital contribution by the partners to the Yunnan Energy Green Energy Fund, the Yunnan Energy Green Energy Fund is an independent third party of the Company; and (ii) after establishment, the Yunnan Energy Green Energy Fund will acquire a majority of equity interest in Dayao Green Energy held by the Vendor (the final percentage of equity interest of which will be determined based on the parties' negotiations and taking into account other factors, including the value of Dayao

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Green Energy to be appraised by an independent valuer as required under the relevant laws and requirements in the PRC), on the conditions that (a) the Yunnan Energy Green Energy Fund will not participate in the daily operation and management of Dayao Green Energy, and will only be entitled to enjoy the voting and dividend rights as set out in Dayao Green Energy's articles of association, and (b) Dayao Green Energy will continue to be a subsidiary of the Vendor, and the financial information of Dayao Green Energy will continue to be consolidated into the financial statements of the Vendor. As at the Latest Practicable Date, no definite plans have been approved and no definitive agreements have been entered into in respect of the transfer of the Vendor's equity interest in Dayao Green Energy to the Yunnan Energy Green Energy Fund, which, as advised by the Vendor, is expected to complete by September 2024.

For the avoidance of doubt, despite the above potential restructuring, the Vendor will remain the controller of Dayao Green Energy and will continue to lead the daily business operation and management of Dayao Green Energy. As such, assuming that the Independent Shareholders' approval is obtained at the SGM and the Transactions are proceeded, the abovementioned potential restructuring exercises would not have material impacts on the Group's interest in Dayao Green Energy.

Basis of determining the capital contribution amount

The capital contribution amount was determined after arm's length negotiations between the parties to the Equity Transfer Agreement, having taken into account of, among other things:

- (i) the respective shareholding proportion of all the shareholders in Dayao Green Energy;
- (ii) the development and growth potential of Dayao Green Energy and the Dayao Projects as set out in the section headed "Outlook of the Dayao Projects";
- (iii) the financial resources available to the Group as at the Latest Practicable Date; and
- (iv) the reasons for entering into the Equity Transfer Agreement as discussed in the section headed "Background to and reasons for the entering into of the Equity Transfer Agreement" in this letter.

As Dayao Green Energy's operation is expected to commence in 2024, it has not recorded any revenue or profit for the period from its incorporation to 31 December 2023. As at 31 December 2023, Dayao Green Energy recorded total assets of RMB411 million and net asset value of RMB169.5 million. The nil acquisition consideration was determined on the consensus that the respective equity investment in the Dayao Projects of the Vendor and the Company shall be made in accordance with their proposed respective equity interest in Dayao Green Energy.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the current development plan of Dayao Green Energy, the Group is not expected to make further investment or capital contribution into nor provide guarantee for financing in favour of Dayao Green Energy. Depending on the future development plan and funding needs of Dayao Green Energy, in view of bank practices, the shareholders of Dayao Green Energy may provide pro rata guarantees in proportion to their respective shareholding for Dayao Green Energy in the event Dayao Green Energy requires bank financings. The Company will comply with the relevant requirements under Chapters 14 and 14A of the Listing Rules should any further financial assistance be provided in favour of the Dayao Green Energy.

On the basis that the Group will make registered capital contribution in cash to Dayao Green Energy in an amount pro rata to their equity interest in Dayao Green Energy, we are of the view that the terms on the capital contribution are fair and reasonable and on normal commercial terms.

6. Financial Effect

It should be noted that the analysis below is for illustrative purposes only and does not purport to represent how the financial position of the Group actually will be upon the completion of the Transactions.

(a) Net assets and earnings

As the Company will only hold approximately 6.67% equity interest in Dayao Green Energy and will not obtain statutory control over Dayao Green Energy, after completion of the Transactions, Dayao Green Energy will not become a subsidiary of the Company and therefore its financial results will not be consolidated into the financial statements of the Group. Dayao Green Energy will be classified as equity investment at fair value through other comprehensive income in the consolidated financial statements of the Group.

On the other hand, saved for the professional fees and miscellaneous transaction costs incurred in relation to the execution of the Transactions, the financial impact of the Transactions on the future earnings of the Group will depend on the future return and the relevant dividend distribution policies of Dayao Green Energy.

(b) Capital contribution, gearing and working capital of the Group

Pursuant to the Equity Transfer Agreement, the Vendor has agreed to transfer 6.67% of the equity interest of Dayao Green Energy to the Company at nil consideration and the Company has agreed to make capital contribution to Dayao Green Energy according to its shareholding interest in Dayao Green Energy following completion of the Transactions amounting to RMB50 million (approximately HK\$54 million).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The capital contribution to Dayao Green Energy by the Group will be funded by internal resources of the Group. Pursuant to the unaudited financial information provided by the management of the Group, as at 31 December 2023, the Group had cash and bank balances of not less than HK\$120 million, as such the Group has sufficient resources to finance the HK\$54 million capital contribution which the Group has agreed to pay pursuant to the Equity Transfer Agreement.

As at the Latest Practicable Date, assuming the Group does not intend to obtain external financing and shall fund the RMB50 million capital contribution with its internal resources, the Group's working capital will decrease accordingly upon payment and such payment will not be expected to have implications on the gearing (i.e. total interest-bearing debts over total equity) of the Group.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that, while the Equity Transfer Agreement and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM. We also recommend the Independent Shareholders to vote in favor of the resolution relating to the Equity Transfer Agreement and the transactions contemplated thereunder at the SGM.

Yours faithfully,
For and on behalf of
HALCYON CAPITAL LIMITED
Terry Chu
Managing Director

Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 23 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all 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' INTERESTS

(I) Interests of Directors

As at the Latest Practicable Date, so far as the Directors or chief executive of the Company are aware, none of the Directors or chief executive of the Company has interests and short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Hong Kong Stock Exchange.

(II) Interests of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company and based on the Company's register required to be maintained pursuant to section 336 of the SFO, the persons (other than a Director or chief executive of the Company) having an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

Name	Capacity and nature of interests	Direct interest		Deemed interest	
		Number of Shares held	Percentage of the Company's total issued share capital	Number of Shares held	Percentage of the Company's total issued share capital
Baodi International Investment Company Limited (<i>Note 1</i>)	Beneficial owner	201,196,995	73.05%	–	–
Yunnan Energy Investment (HK) Co. Limited (<i>Note 1</i>)	Interest of controlled corporation	–	–	201,196,995	73.05%
Yunnan Provincial Energy Investment Group Co., Limited (<i>Note 1</i>)	Interest of controlled corporation	–	–	201,196,995	73.05%

Notes:

1. 201,196,995 shares are owned by Baodi International Investment Company Limited which is wholly owned by Yunnan Energy Investment (HK) Co. Limited, which in turn is wholly owned by Yunnan Provincial Energy Investment Group Co., Limited. Accordingly, Yunnan Energy Investment (HK) Co. Limited and Yunnan Provincial Energy Investment Group Co., Limited are deemed to be interested in all the Shares held by Baodi International Investment Company Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons (other than the Directors) who had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

As at the Latest Practicable Date, so far as known to the Directors, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

(III) Directors' interests in competing business

As at the Latest Practicable Date, none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered or proposed to enter into any service contract with any member of the Group which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

4. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as known to the Directors, there was no litigation, arbitration or claim of material importance in which the Group was engaged or pending or threatened against the Group.

5. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT AND ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors, proposed Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which had been proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2022 (the date to which the latest published audited consolidated financial statements of the Group were made up).

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed there has been no material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

7. EXPERT AND CONSENT

The following is the name and qualification of the expert which has given its opinion or advice which is contained in this Circular:

Name	Qualification
Halcyon Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the above mentioned expert:

- (a) did not have any shareholding, directly or indirectly, in any member of the Group or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up; and
- (c) had given and had not withdrawn its written consent to the issue of this Circular with the inclusion of and references to its name, letter and/or report in the form and context in which they respectively appear.

8. MISCELLANEOUS

- (a) The registered office of the Company is at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10 Bermuda, Bermuda and its principal place of business in Hong Kong is at Room 2008, 20/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.
- (b) The Company's Branch Registrar and Transfer Office in Hong Kong is Tricor Investor Services Limited, at Level 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for Hong Kong Shareholders) or with the Company's share transfer agent in Singapore, Tricor Barbinder Share Registration Services at 9 Raffles Place, #26-01, Republic Plaza Tower I, Singapore 048619 (for Singapore Shareholders).
- (c) The company secretary of the Company is Mr. Ng King Hang, who is a Certified Public Accountant (Practising).
- (d) The English text of this circular and the form of proxy shall prevail over the Chinese text in the case of inconsistency.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published and displayed on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yeigi.com) for a period of not less than 14 days from the date of this circular (both days inclusive):

- (a) the Equity Transfer Agreement;
- (b) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this Circular; and
- (c) the written consent of the Independent Financial Adviser as referred to in the paragraph headed "Experts and Consents" in this appendix.

NOTICE OF SPECIAL GENERAL MEETING



雲能國際
YUNNAN ENERGY INTERNATIONAL

Yunnan Energy International Co. Limited

雲能國際股份有限公司*

(Incorporated in Bermuda with limited liability)

(Hong Kong Stock Code: 1298)

(Singapore Stock Code: T43)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (“SGM”) of Yunnan Energy International Co. Limited (the “**Company**”) will be held at Room 2008, 20/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and via live audio-visual webcast or live audio-only stream on Tuesday, 19 March 2024 at 10:00 a.m. (Hong Kong time) for the purpose of considering and, if thought fit, approving, with or without modifications, the following resolution:

AS ORDINARY RESOLUTION

1. (a) **“THAT** the Equity Transfer Agreement (as defined in the circular of the Company dated 18 January 2024 (the “**Circular**”)), a copy of which has been produced to the SGM, the terms and conditions therein and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) **THAT** any one of the directors be authorised for and on behalf of the Company, among other matters, to sign, seal and execute, perfect, deliver or to authorise signing, execution, perfecting and delivering all such documents and deeds, to do or authorise doing all such acts, matters and things he/she may in his/her discretion consider necessary, expedient or desirable to give effect to and implement the Equity Transfer Agreement and to waive compliance with or make and agree such variations of a non-material nature to any of the terms of the Equity Transfer Agreement as he/she may in his/her discretion consider to be desirable and in the interests of the Company and all the director’s acts as aforesaid be hereby approved, ratified and confirmed.”

By Order of the Board
Yunnan Energy International Co. Limited
HU Xiangwei
Chairman

Hong Kong, 23 February 2024

* *For identification purpose only*

NOTICE OF SPECIAL GENERAL MEETING

Important: please read the notes below.

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged at the office of 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 (for shareholders in Hong Kong), or the Company's share transfer agent in Singapore, Tricor Barbinder Share Registration Services at 9 Raffles Place, #26-01, Republic Plaza Tower I, Singapore 048619 (for shareholders in Singapore) as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint holders of any Shares, any one of such joint holders may vote, either in person 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, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the Shares shall be accepted to the exclusion of the votes of the other registered holders.
6. A Depositor (as defined in the Securities and Futures Act, Chapter 289 of Singapore (the "SFA")) whose name appears in the Depository Register (as defined in the SFA) and who is unable to attend personally but wishes to appoint a nominee to attend and vote on his/her behalf, or if such Depositor is a corporation, should complete the accompanying CDP form of proxy and lodge the same at the office of the Company's share transfer agent in Singapore, Tricor Barbinder Share Registration Services at 9 Raffles Place, #26-01, Republic Plaza Tower I, Singapore 048619 (for shareholders in Singapore) as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
7. The register of members of the Company will be closed from Thursday, 14 March 2024 to Tuesday, 19 March 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to determine the identity of shareholders who are entitled to attend and vote at the meeting, all share 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 for registration not later than 4:30 p.m., Wednesday, 13 March 2024 (for shareholders in Hong Kong), or with the Company's share transfer agent in Singapore, Tricor Barbinder Share Registration Services at 9 Raffles Place, #26-01, Republic Plaza Tower I, Singapore 048619 for registration not later than 5:00 p.m., Wednesday, 13 March 2024 (for shareholders in Singapore).
8. Personal Data Privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the SGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the SGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the SGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

As at the date of this notice, the Board comprises Mr. HU Xiangwei, Ms. ZHU Yingxue, Mr. YANG Jie, Mr. WANG Jin and Mr. SONG Henan as the executive Directors; and Mr. SHI Fazhen, Mr. LIU Zongliu and Ms. JING Pilin as the independent non-executive Directors.