德健融資有限公司
DAKIN CAPITAL LIMITED

DAKIN CAPITAL LIMITED
Suite 3111A, 31/F,
Tower 2, Lippo Centre,
89 Queensway,
Hong Kong

www.dakin-capital.com
852 - 2919 0919

22 February 2024

To: the Independent Board Committee and the Independent Shareholders of China Energine International (Holdings) Limited

Dear Sirs,

CONNECTED TRANSACTIONS RECEIPT OF FINANCIAL ASSISTANCE AND PROVISION OF SECURITY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 22 February 2024 (the "**Circular**"), of which this letter forms part. Unless otherwise stated, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

Reference is made to the Company's annual report 2020 dated 31 August 2021 in relation to the bankruptcy of Beijing Energine Industry Co., Ltd.*（北京萬源工業有限公司）("**Beijing Energine**"). Beijing Energine, a former wholly owned indirect subsidiary of the Group, was unable to meet the repayment obligation of its liabilities, and consequently an application of the bankruptcy liquidation by the debtor against Beijing Energine was accepted by Beijing First Intermediate People's Court effective from 25 December 2020 and bankruptcy administrator was appointed (the "**Beijing Energine Bankruptcy**"). As the result of the Beijing Energine Bankruptcy, the Group lost the control over Beijing Energine and Beijing Energine ceased to be the subsidiary of the Group. Resulting from the bankruptcy liquidation proceeding of Beijing Energine, loans advances from CALT through CASC's subsidiary, Aerospace Science and Technology Finance Co. Ltd.*（航天科技財務有限責任公司）("**ASTF**") and from ASTF to Beijing Energine have constituted an event of default, which triggered the Company's guarantee obligations provided to ASTF. In accordance with terms and conditions of the aforesaid loan advances from ASTF and relevant guarantee agreement, CALT have repaid the principal and interest expenses of the aforesaid loan advance from ASTF on behalf of the Company. As such, the Company has to fulfilled its counter guarantee and guarantee obligations in respect of the amount due to CALT by the Company, which is non-interest bearing and repayable on demand.

As stated in the Letter from the Board, the amount due to CALT represented financial assistance provided by connected persons of the Company. The amount due to CALT is non-interest bearing and repayable on demand and amounted to HK$1,191,872,000 as at 30 June 2023.

On 21 May 2021, CALT issued the Company a letter undertaking not to demand repayment from the Company for the aforesaid obligations and to provide all necessary financial support to the Company. Such undertakings are effective for 18 months from the issue date of the letter. On 14 March 2022, CALT, in response to the request from the Company, issued the Company another letter to grant extension of the undertaking for a further 24 months ending on 20 November 2024 and requested the Share Charge from the Company as a safeguard to the amount due to CALT. Pursuant to the Company's interim report 2023 published on 29 September 2023, the amount due to CALT amounted to HK$1,191,872,000 as at 30 June 2023. According to the Letter from the Board, the amount due to CALT represented financial assistance provided by connected persons of the Company for the benefit of the Group, which were on normal commercial terms or better and were not secured by the assets of the Group, and were therefore fully exempt from the reporting, announcement and Independent Shareholders' approval requirements for connected transactions pursuant to Rule 14A.90 of the Listing Rules.

On 16 September 2022, CALT provided the Company a letter of intent confirming that CALT would agree to capitalise the amount due to CALT (the "**Debt-to-Equity Swap**") if certain criteria are met. As stated in the Letter from the Board, on the basis that the Company's financial and business performance have achieved substantial improvement, the management of the Company could facilitate the Debt-to-Equity Swap to be submitted to the relevant authority in the PRC for approval, but currently there is no substantial improvement in the Company's financial and business performance, the Company does not yet eligible to apply for Debt-to-Equity Swap approval from the relevant authority in the PRC, including but not limited to, the State-owned assets Supervision and Administration Commission. Therefore, the formal agreement for the Debt-to-Equity Swap has not been finalised and so the criteria have not been formally agreed between the parties but are expected to include the followings:

(1) the trading of the Company's shares has been resumed;

(2) Beijing Energine liquidation procedures have been fully completed and the amount to be paid from Beijing Energine to CALT has been fixed;

(3) achievement by the Group of specified revenue, net profit and share price targets; and

(4) approval of the Debt-to-Equity Swap by CASC and the relevant authority in the PRC

As at the date of this Circular, the first foresaid criteria was met and the remaining foresaid criteria are in progress.

For the second foresaid criteria, the management of the Company has cooperated and communicated proactively with the bankruptcy administrator to speed up the liquidation process. According to the management of the Company, on 1 March 2023, Beijing Energine repaid approximately HK$84,222,000 to CALT and the Company's amount due to CALT was reduced by the same amount, a gain was recognised and reflected in the consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2023. The management of the Company will continue to work closely with the bankruptcy administrator so that the bankruptcy administrator would complete the procedures of Beijing Energine liquidation as soon as possible.

For the third foresaid criteria, the management of the Company has strived the upmost effort in managing the existing businesses, including but not limited to, impose strict cost control and identify potential customers and business opportunities to enhance the operations and financial position of the Group.

For the fourth foresaid criteria, the management of the Company communicate and discuss with CASC regularly in relation the Debt-to-Equity Swap and seek the support from CASC, the management of the Company also acknowledge that CASC has sought policy advices and guidance in relation to the Debt-to-Equity Swap arrangement from the relevant authority in the PRC, including but not limited to, the State-owned Assets Supervision and Administration Commission.

For details of the future plan on the Debt-to-Equity Swap, please refer to the paragraph headed "Action plan for the repayment of the financial assistance" in the Letter from the Board.

The extension of repayment of the amount due to CALT will be expired on 20 November 2024. According to the management of the Company, they have prepared a cash flow forecast for the year ending 31 December 2024 to monitor the Group's financial and liquidity position from time to time. Based on the cash flow forecast prepared by the management of the Company, the Company does not have the sufficient internal resources to repay the amount due to CALT on 20 November 2024. Therefore, the further extension of the undertaking from CALT is required for supporting the operations of the Group and the repayment of debts when they fall due during the year ending 31 December 2024. Pursuant to the negotiation with CALT in relation to the extension of the undertaking from CALT, CALT request the Share Charge as security for the amount due to CALT. CALT will not agree to extend the undertaking with the absence of the Share Charge, and the Share Charge is a necessary condition for striving for the further extension of the undertaking not to demand repayment from the Company.

On 30 November 2023, Crownpluss, a direct wholly-owned subsidiary of the Company, and CALT entered into Share Charge agreements, pursuant to which Crownpluss conditionally grants securities in favour of CALT by way of Shares Charges, as security for the amount due to CALT. As the Share Charge constitutes security over the assets of the Group, the receipt of financial assistance by the Group would no longer be exempt from the reporting, announcement and Independent Shareholders' approval requirements for connected transactions under Rule 14A.90 of the Listing Rules, and thus compliance by the Company with requirements under Chapter 14A of the Listing Rules in relation to the amount due to CALT and the Share Charge becomes necessary.

The Transactions constitutes a connected transaction of the Company under the Listing Rules and is subject to announcement, circular and independent shareholders' approval requirements under the Listing Rules. The EGM will be held to seek the Independent Shareholders' approval of the Transactions.

According to the Letter from the Board and the Directors, Astrotech holds 2,649,244,000 Shares, representing approximately 60.64% of the issued Shares. Astrotech is a company wholly-owned by CALT. CALT is a company wholly-owned by CASC and therefore CASC is the ultimate controlling shareholder of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, as at the Latest Practicable Date, CALT and CASC are deemed to be interested 2,649,244,000 Shares held by Astrotech and therefore they are connected persons to the Company. As the applicable percentage ratios in respect of the Transactions are more than 5%, the Transactions are subject to the reporting, announcement, circular (including independent financial advice) and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek approval from the Independent Shareholders in respect of the Transactions by way of a poll at the EGM. In accordance with the Listing Rules, Astrotech, CALT, CASC and its respective associates, who together hold 2,649,244,000 Shares shall abstain from the voting on the resolution(s) to be proposed at the EGM to approve the Transactions. Save as Astrotech, CALT, CASC and its respective associates, to the best of the knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Transactions and will be required to abstain from voting on the resolution(s) to approve the Transactions at the EGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Lau Fai Lawrence, Mr. Gordon Ng and Mr. Li Dapeng, has been formed to advise the Independent Shareholders on whether the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendation of the Independent Financial Adviser.

OUR INDEPENDENCE

We, Dakin Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. During the past two years immediately preceding the Latest Practicable Date, we did not act as the financial adviser or the independent financial adviser of the Company. Apart from normal professional fees for our services to the Company in connection with this engagement described above, no other arrangements exist whereby we will receive any fees and/or benefits from the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company, or its substantial Shareholders, Directors, chief executive, or any of their respective associates. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, its subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the fairness and reasonableness of the Transactions and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the Transactions, we have considered the following principal factors and reasons:

1. Background information of the parties

Set out below are the background information on the relevant parties to the Transactions as extracted from the Letter from the Board:

The Group

The Company is incorporated in Cayman Island with limited liability, whose shares are listed on the main board of the Stock Exchange (stock code: 1185). It is an investment holding company whose subsidiaries are principally engaged in (i) sales of electricity from operation of wind power field, (ii) technical service for new energy development operation; and (iii) sales of new energy systems from new energy development operation.

The chargor – Crownpluss International Limited

Crownpluss is a company incorporated in Hong Kong with limited liability. It is a direct wholly-owned subsidiary of the Company and its principal activity is investment holding.

The chargee – China Academy of Launch Vehicle Technology* (中國運載火箭技術研究院)

CALT is a company established in the PRC with limited liability and is a wholly owned subsidiary of CASC. CALT is mainly engaged in the research, design, production, testing and launch services of carrier rockets and missile weapon systems, as well as the transformation and application of the achievements in aerospace scientific research to national economic construction. As at the Latest Practicable Date, CALT holds 100% issued shares of the Astrotech and is deemed to be interested 2,649,244,000 Shares held by Astrotech and therefore CALT is a connected person to the Company.

The Subject Matter Companies

Aerospace Long Yuan (Benxi) Wind Power Co., Ltd.* (航天龍源(本溪)風力發電有限公司)

Longyuan Benxi is a company established in PRC with limited liability. It is an indirectly 40% owned subsidiary of the Company. Its scope of business includes wind farm operation. As of the date of this Circular, Crownpluss holds 40% the registered capital of Longyuan Benxi. Set out below is the financial information represents amounts shown in the Longyuan Benxi's financial statements prepared in accordance with Hong Kong accounting standards:

	For the year ended 31 December 2022 (audited) *HK$'000*	**For the six months ended 30 June 2023 (unaudited)** *HK$'000*
Revenue	25,771	12,404
Profit before taxation	3,327	1,353
Profit after taxation	2,656	993
Total asset	129,785	125,708
Net asset	119,578	117,269

There are no material extraordinary items noted during the year ended 31 December 2022 and six months ended 30 June 2023.

Jiangsu Longyuan Wind Power Co., Ltd.* (江蘇龍源風力發電有限公司)

Jiangsu Longyuan is a company established in PRC with limited liability. Its scope of business includes wind farm operation. As of the date of this Circular, Crownpluss holds 25% the registered capital of Jiangsu Longyuan. Set out below is the financial information represents amounts shown in the Jiangsu Longyuan's financial statements prepared in accordance with Hong Kong accounting standards:

	For the year ended 31 December 2022 (audited) *HK$'000*	**For the six months ended 30 June 2023 (unaudited)** *HK$'000*
Profit before taxation	28,718	24,614
Profit after taxation	20,718	18,197

There are no material extraordinary items noted during the year ended 31 December 2022 and six months ended 30 June 2023.

Jilin Longyuan Wind Power Co., Ltd.* (吉林龍源風力發電有限公司)

Jilin Longyuan is a company established in PRC with limited liability. Its scope of business includes wind farm operation. As of the date of this Circular, Crownpluss holds approximately 15.35% the registered capital of Jilin Longyuan. Set out below is the financial information represents amounts shown in the Jilin Longyuan's financial statements prepared in accordance with Hong Kong accounting standards:

	For the year ended 31 December 2022 (audited) *HK$'000*	**For the six months ended 30 June 2023 (unaudited)** *HK$'000*
Profit before taxation	2,004	1
Profit/(Loss) after taxation	241	(4)

There are no material extraordinary items noted during the year ended 31 December 2022 and six months ended 30 June 2023.

2. Financial information of the Group

The table below summarises the general financial information of the Group (i) for the financial years ended 31 December 2021 and 2022 which are extracted from the Company's annual report for the year ended 31 December 2022 (the "**Annual Report**"); and (ii) for the six months ended 30 June 2022 and 2023 which are extracted from the Company's interim report for the six months ended 30 June 2023 (the "**Interim Report**")

Summary of the consolidated financial results of the Group

	For the year ended 31 December 2021 (audited) *HK$'000*	For the year ended 31 December 2022 (audited) *HK$'000*	For the six months ended 30 June 2022 (unaudited) *HK$'000*	For the six months ended 30 June 2023 (unaudited) *HK$'000*
Financial performance				
Revenue	9,100	41,218	13,303	12,404
Gross profit	8,020	8,945	3,253	1,975
(Loss)/Profit for the year/period	(74,140)	608,019	254	85,042

	As at 31 December 2021 (audited) *HK$'000*	As at 31 December 2022 (audited) *HK$'000*	As at 30 June 2023 (unaudited) *HK$'000*
Financial position			
Cash and cash equivalents	31,257	44,998	41,377
Net current liabilities	(2,061,167)	(1,282,444)	(1,157,191)
Net liabilities	(1,763,893)	(1,029,494)	(912,442)

Annual results of the Group

The Group's revenue increased from approximately HK$9.1 million for the year ended 31 December 2021 ("**FY2021**") to approximately HK$41.2 million for the year ended 31 December 2022 ("**FY2022**"), representing an increase of approximately 352.9%. According to the Annual Report and the management of the Company, such increase in revenue was mainly attributable to (i) the stable operation for the wind farm of Longyuan Benxi; and (ii) the promotion for signing of investment and development agreements for several wind power and photovoltaic projects the PRC local governments, among which the photovoltaic project in Guangdong Province has obtained the filing certificate and grid access approval from the country government, and the wind power project in Sichuan Province has commenced the application for wind resource measurement. Mainly due to the reasons as mentioned above, the Group's gross profit increased from approximately HK$8.0 million for FY2021 to approximately HK$8.9 million for FY2022, representing an increase of approximately 11.5%.

The Group recorded a turnaround performance from loss for the year of approximately HK$74.1 million for FY2021 to profit for the year of approximately HK$608.0 million for FY2022. Pursuant to the Annual Report and the management of the Company, such improvement was mainly due to (i) the operating subsidies granted to the Group by the PRC government for operation of wind farm and other technology development and the reduction approval from the PRC tax authorities on value added tax of approximately HK$1.4 million; (ii) the gain on debt restructuring of Beijing Energine of approximately HK$434.5 million; and (iii) the gain on deconsolidation of two subsidiaries of approximately HK$185.5 million.

Interim results of the Group

The Group's revenue decreased from approximately HK$13.3 million for the six months ended 30 June 2022 (the "**IR2022**") to approximately HK$12.4 million for the six months ended 30 June 2023 (the "**IR2023**"), representing a decrease of approximately 6.8%. As advised by the management of the Company, such decrease in revenue was mainly due to the depreciation of Renminbi during the period from IR2022 to IR2023. The gross profit decrease by approximately HK$1.3 million, or 39.3% from approximately HK$3.3 million for IR2022 to approximately HK$2.0 million for IR2023. According to the management of the Company, such decrease in gross profit was mainly due to the increase in cost of wind farm operation.

The Group's profit for the period substantially increased from approximately HK$0.3 million for IR2022 to approximately HK$85.0 million for IR2023. Pursuant to the Interim Report, such increase in profit for the period was mainly due to the reversal of financial guarantees contracts of approximately HK$84.2 million.

Financial position of the Group

As stated in the Annual Report and the Interim Report, cash and cash equivalent of the Group amounted to approximately HK$31.2 million, HK$45.0 million and HK$41.4 million as at 31 December 2021, 31 December 2022 and 30 June 2023 respectively. The cash and cash equivalent of the Group increased from approximately HK$31.2 million as at 31 December 2021 to approximately HK$45.0 million as at 31 December 2022, representing an increase of approximately 44.0%. According to the management of the Company, such increase in the cash and cash equivalent of the Group was mainly contributed by the net cash generated from operating activities of approximately HK$16.5 million for FY2022. The cash and cash equivalent of the Group decreased from approximately HK$45.0 million as at 31 December 2022 to approximately HK$41.4 million as at 30 June 2023, representing a decrease of approximately 8.0%. As advised by the management of the Company, such decrease in the cash and cash equivalent of the Group is mainly due to (i) the net cash generated from investing activities of approximately HK$3.5 million for IR2023; and offset by (ii) the net cash used in operating activities of approximately HK$3.7 million for IR2023.

The net current liabilities of the Group amounted to approximately HK$2,061.2 million, HK$1,282.4 million and HK$1,157.2 million as at 31 December 2021, 31 December 2022 and 30 June 2023 respectively. According to the management of the Company, such improvement in net current liabilities position were mainly due to (i) the decrease in trade and other payables contributed by the debt restructuring of Beijing Energine and the deconsolidation of two subsidiaries during FY2022; and (ii) the decrease in amount due to CALT from approximately HK$1,439.0 million as at 31 December 2021 to approximately HK$1,191.9 million as at 30 June 2023. The Group recorded net liabilities of approximately HK$1,763.9 million, HK$1,029.5 million and HK$912.4 million as at 31 December 2021, 31 December 2022 and 30 June 2023 respectively. According to the management of the Company, such improvement in net liabilities position were mainly due to the reasons as mentioned above.

As disclosed in the section headed "Independent Auditors' Report" in the Annual Report, the auditors of the Company (the "**Auditors**") did not express an opinion on the consolidated financial statements of the Group for FY2022. In particular, as disclosed in note 2 to the consolidated financial statements of the Annual Report, as at 31 December 2022, the Group had net current liabilities and net liabilities of approximately HK$1,282.4 million and approximately HK$1,029.5 million respectively. The Group's amount due to CALT amounted to approximately HK$1,317.1 million as at 31 December 2022, which is repayable on demand; while its cash and cash equivalents amounted to approximately HK$45.0 million only as at 31 December 2022. The consolidated financial statements of the Group have been prepared by the Directors on a going concern basis, the validity of which depends on the outcome of plans and measures undertaken by the Directors as set out in note 2 to the consolidated financial statements of the Annual Report. The Auditors stated that in view of the significance of the extent of the uncertainties relating to the ongoing availability of finance to the Group, they have disclaimed their audit opinion in respect of the consolidated financial statements of the Group. Please refer to the section headed "Independent Auditors Report" in the Annual Report for further details.

3. Reasons for and benefits of the Transactions

Please refer to the paragraph headed "Introduction" above in this letter for the details of the background of Beijing Energine Bankruptcy, the development of the amount due to CALT by the Company and the Transactions. Pursuant to the negotiation with CALT in relation to the extension of the undertaking from CALT, CALT request the Share Charge as security for the amount due to CALT. CALT will not agree to extend the undertaking with the absence of the Share Charge, and the Share Charge is a necessary condition for striving for the further extension of the undertaking not to demand repayment from the Company.

According to the Letter from the Board, pursuant to the negotiation with CALT, CALT will only accept the proposal for the extension of the undertaking to be submitted by the Company to CALT upon the Share Change is provided to CALT. The Company will submit the proposal for the extension of undertaking to CALT within one week upon the Share Charge is provided to CALT. CALT will then commence the internal approval process of the extension of the undertaking immediately, and based on the feedback from CALT's business department, finance department and legal department, CALT will draw the conclusion on whether the further extension of the undertaking is approved within one month time. Based on the above timeline, this is expected that the approval process of CALT will be completed before 20 November 2024 as to mitigate the risk of default of the Company. Furthermore, if the further extension of the undertaking is granted, the extension of the undertaking will be effective up until not earlier than April 2025.

As discussed in the paragraph headed "2. Financial information of the Group" above in this letter, the net current liabilities and net liabilities position of the Group had been improved from 31 December 2021 to 30 June 2023. However, as stated in the Interim Report, the Group still recorded a net current liabilities and net liabilities of approximately HK$1,157.2 million and HK$912.4 million as at 30 June 2023 respectively, which are mainly comprised of the amount due to CALT of approximately HK$1,191.9 million. We have also reviewed the Company's annual report for the year ended 31 December 2021, the Annual Report and the Interim Report and noted that the Company's net cash flow from the operating activities fluctuate as (i) net cash used in operating activities of approximately HK$94.6 million and HK$3.3 million for the year ended 31 December 2020 ("**FY2020**") and 31 December 2021; (ii) net cash generated from operating activities of approximately HK$16.5 million for FY2022; and (iii) net cash used in operating activities of approximately HK$3.7 million for IR2023. Furthermore, the management of the Company advised that as at 30 June 2023, the Group did not have adequate cash and cash equivalents (approximately HK$41.4 million) to repay the amount due to CALT (approximately HK$1,191.9 million), representing a shortage of approximately HK$1,150.5 million.

Mainly due to the net current liabilities and net liabilities position of the Group, the Directors advised us that the Company has approached two financial institutions to negotiate for debt financing. However, the Directors was informed that based on the preliminary assessment of the Group, including but not limited to, the operations, financial performance, financial position and the assets eligible for pledging at the material time, the Company will not be able to obtain bank borrowings with an amount comparable to the amount due to CALT. For detailed discussion of other financing alternatives, please refer to the paragraph headed "5. Other financing alternatives" below in this letter.

As disclosed in note 29 of the consolidated financial statements of the Interim Report, the amount due to CALT is unsecured, non-interest bearing and repayable on demand. The Directors advised us that (i) when negotiating the Transactions with CALT, CALT has considered the Group's business operation, financial performance, financial position and the assets eligible for pledging; and (ii) CALT offered an interest-free term of the amount due to CALT.

According to the applicable PRC law and regulation and confirmed by the legal opinion from PRC lawyer, in the event that CALT is entitled to enforce against the security under the Share Charge, CALT shall not obtain the subject matter of the Share Charge at a discounted value but shall arrange for sales in open market, and the proceeds after payment of the amount owing to CALT will be returned to Crownpluss. As stated in the Letter from the Board, under the possible scenarios that there is no buyer for the Share Charge in the open market, the Subject Matter Companies might be forced to liquidate and the value of the Share Charge will be realized after the realization of assets of the Subject Matter Companies. According to the Letter from the Board, based on the unaudited interim financial statements for six months ended 30 June 2023, the Subject Matter Companies contributed 100% and approximately 95% of the revenue and total asset to the Group. For detailed information of the contribution of revenue and total asset from the Subject Matter Companies, please refer to the paragraph headed "Provision of security" in the Letter from the Board. In this regard, we have discussed with the management of the Company and be advised that the Transactions are necessary conditions for striving for the further extension of the undertaking from CALT not to demand repayment from the Company. Without arrangement of the Transactions, the further extension of the undertaking from CALT might not be granted. As stated above, the Group did not have adequate cash and cash equivalents to repay the amount due to CALT as at 30 June 2023. According to the management of the Company, if the Group is unable to obtain the further extension of the undertaking from CALT, (i) this is unlikely that the Company will have sufficient internal resources to repay the amount due to CALT on 20 November 2024; (ii) CALT has the right to take legal action against the Group once the Group defaults payment; and (iii) the insolvency might trigger the winding up of the Company on or before 20 November 2024. Pursuant to the Letter from the Board, in the event that the Share Charge are enforced by CALT, the Company will essentially loss the interests in its principal subsidiary and investment in associates.

In view of (i) the Group did not have adequate cash and cash equivalents to repay the amount due to CALT as at 30 June 2023; (ii) CALT will not agree to extend the undertaking with the absence of the Share Charge; (iii) other financing alternatives may not be feasible as discussed in the paragraph headed "5. Other financing alternatives" below in this letter; (iv) the term of interest-free of the amount due to CALT would not increase the interest burden of the Group; and (v) the principal terms of the amount due to CALT and the Share Charge agreements are on normal commercial terms, fair and reasonsable as discussed in the paragraph headed "4. Principal terms of the amount due to CALT and the Share Charge agreements" below in this letter, the Directors consider that notwithstanding CALT requested the Company to provide the security for the amount due to CALT in return for the further extension, the arrangement of the Transactions could retain the Group's cash for its business operation and short-term working capital needs to avoid the insolvency, resulting in triggering the winding up of the Company on or before 20 November 2024.

4. Principal terms of the amount due to CALT and the Share Charge agreements

Pursuant to the Letter from the Board and the management of the Company, (i) the amount due to CALT represented financial assistance provided by connected persons of the Company; and (ii) the principal terms of the amount due to CALT includes non-interest bearing, repayment on demand and amounted to HK$1,191,872,000 as at 30 June 2023. As stated in the Letter from the Board, the Share Charge agreements were entered into between Crownpluss and CALT, pursuant to which Crownpluss conditionally grants securities in favour of CALT by way of Shares Charge, as security for the amount due to CALT.

In order to assess the fairness and reasonableness of the terms of the amount due to CALT, we have searched for relevant loan borrowed by other companies listed on the Stock Exchange from their connected persons (the "**Loan Comparables**") as announced during the thirty-six months period prior to and including 30 November 2023 (the "**Loan Review Period**") and 6 Loan Comparables which (i) have a single loan size from HK$100 million to HK$2,000 million; (ii) with pre-fixed calculation of interest rates as at the date of the respective agreements; and (iii) has term to maturity of not more than three years are identified. We consider that the aforementioned selection criteria of the Loan Comparables during the Loan Review Period allows us to (i) capture the Loan Comparables, which provide a general reference for the recent market practice in relation to the principal terms of loan borrowed by other companies listed on the Stock Exchange from their connected persons; and (ii) generate a sufficient sample size for the purpose of our comparable analysis. We consider that the Loan Comparables can provide a general reference in relation to the terms of loans under recent market condition and sentiment and generate sufficient number of the Loan Comparables under the selection criteria as mentioned above. Therefore, the Loan Comparables are sufficient and appropriate in assessing the fairness and reasonableness of the terms of the amount due to CALT.

Details of the Loan Comparables are set out below

No.	Name of company	Stock code	Date of initial announcement/ agreement	Maximum loan amount *million*	Interest rate per annum	Security and/or guarantee *(Y/N)*	Collaterals to loan ratio *(Note 1)* *approximate %*	Repayment clause	Relationship with its lenders
1.	Xinchen China Power Holdings Limited ("Xinchen China")	1148	11 May 2021	RMB500	4.60%	Y, pledge of production facilities owned by the wholly owned subsidiaries of Xinchen China relating to the production of crankshaft and the land use right and property ownership of buildings under the mortgage agreement and no amount of collaterals were disclosed in Xinchen China's announcement	N/A *(Note 2)*	One lump-sum repayment of outstanding principal and accrued interest at maturity	Lender is owned as to 50% by the controlling shareholder of Xinchen China

No.	Name of company	Stock code	Date of initial announcement/ agreement	Maximum loan amount *million*	Interest rate per annum	Security and/or guarantee *(Y/N)*	Collaterals to loan ratio *(Note 1)* *approximate %*	Repayment clause	Relationship with its lenders
2.	Yanchang Petroleum International Limited ("**Yanchang Petroleum**")	346	30 June 2021	USD22	4.80%	Y, pledge of 35% equity interest in a wholly owned subsidiary of Yanchang Petroleum under the share charge deed pursuant to which Yanchang Petroleum agreed to provide a guarantee in favour of the lender that Yanchang Petroleum shall procure on the best effort basis the carrying valuation of an indirect non-wholly owned subsidiary of Yanchang Petroleum will be not less than USD104,800,000 and no amount of collaterals were disclosed in Yanchang Petroleum's announcement	N/A *(Note 2)*	One lump-sum repayment of outstanding principal at maturity	Lender is the controlling shareholder of Yanchang Petroleum
3	Sam Woo Construction Group Limited ("**Sam Woo**")	3822	20 October 2022	HK$100	Sum of one month HIBOR and 1.85% per annum	N	-	One lump-sum repayment of outstanding principal and accrued interest at maturity	Lender is owned as to 100% by the executive directors of Sam Woo
4	China South City Holdings Limited ("**China South City**")	1668	20 October 2022	RMB200	4.35%	Y, pledge of storage properties held by a wholly owned subsidiary of China South City with a gross floor area of approximately 66,492.95 sq.m. in aggregate located at Dongcheng Avenue, Banan District, Chongqing, the PRC and have the aggregated unaudited net asset value of approximately RMB147 million as at 31 March 2022	74%	Instalments every six months, with each instalment being of an amount of RMB2 million	Lender is the substantial shareholder of China South City
5	Binhai Investment Company Limited ("**Binhai Investment**")	2886	17 August 2023	RMB300	Sum of one year loan prime rate and 0.5% per annum	Y, pledge of (i) 100% equity interest in a wholly owned subsidiary of Binhai Investment; and (ii) 85% equity interest in a non-wholly owned subsidiary of Binhai Investment and have the aggregated unaudited book value of approximately RMB1,289 million as at 31 December 2022	430%	One lump-sum repayment of outstanding principal and accrued interest at maturity	Lender is owned as to 49% by the substantial shareholder of Binhai Investment
6	Hysan Development Company Limited ("**Hysan**")	14	22 November 2023	RMB200	Sum of one year loan prime rate and 0.45% per annum	Y, guarantee provide by Hysan on the full amount owed by the borrower, the indirect wholly-owned subsidiary of Hysan	-	Instalments every six months from the drawdown date of the loan	Lender is the group company of The Hong Kong and Shanghai Banking Corporation Limited who is the controlling shareholder of Hang Seng Bank Limited ("**Hang Seng**"). Hang Seng is a substantial shareholder of an indirect non-wholly owned subsidiary of Hysan and therefore the lender is a connected person of Hysan at subsidiary level.
	The Company	1185	30 November 2023	HK$1,192	-	Y, pledge of the Share Charge and have the aggregated unaudited net asset value of approximately HK$307 million	26%	One lump-sum repayment of outstanding principal at maturity	CALT is the controlling shareholder of the Company

Source: Website of the Stock Exchange (http://www.hkex.com.hk)

Notes:

1. *Calculation formula of collaterals to loan ratio: amount of collaterals divided by the loan amount; and*

2. *The listed companies do not disclose the amount of collaterals for calculation purpose.*

Interest rate per annum

As shown in the above table, we note that all the Loan Comparables request interest rates of their loans. Given the amount due to CALT is interest-free which is favourable to the Group and would not increase the Group's interest burden, we consider that the interest-free term of the amount due to CALT is fair and reasonable.

Security

The Transactions require the Share Charge as security of the amount due to CALT which is subject to the Independent Shareholders' approval at EGM. As shown in the above table, we note that five out of six Loan Comparables also require security or guarantee of their loans. Nothing has come to our attention that the arrangement of the Share Charge for the amount due to CALT is not on normal commercial terms.

Repayment clause

According to the Directors, the outstanding principal amount of the amount due to CALT shall be repaid in one lump-sum on the maturity date. As shown in the above table, four our of six Loan Comparables also repay of their loans in one lump-sum of outstanding principal and accrued interest (if any) at maturity. Nothing has come to our attention that the repayment clause of the amount due to CALT is not on normal commercial terms.

Based on the above comparable analysis on the Loan Comparables, we can summarize our findings on the principal terms of the amount due to CALT and the Share Charge:

(i) the interest-free term of the amount due to CALT is lower than all of the Loan Comparables and would not increase the Group's interest burden;

(ii) the arrangement of the Share Charge is not uncommon in the recent market condition and sentiment and is generally in line with market practice as compared to the Loan Comparables; and

(iii) the one lump-sum repayment of the outstanding principal amount due to CALT is on normal commercial terms which is similar to the repayment clause of the Loan Comparables.

As such, we are of the view that the principal terms of the amount due to CALT and the Share Charge agreements are on normal commercial terms, fair and reasonable.

Our view

Having considered that,

(i) the Group still recorded a net current liabilities and net liabilities of approximately HK$1,157.2 million and HK$912.4 million as at 30 June 2023 respectively;

(ii) as at 30 June 2023, the Group did not have adequate cash and cash equivalents to repay the amount due to CALT;

(iii) despite improvement in its financial position after debt restructuring of Beijing Energine and the deconsolidation of two subsidiaries during FY2022, the pace of the Group's business development is still needed time to turnaround;

(iv) the Auditors did not express an opinion on the consolidated financial statements of the Group for FY2022 in view of the significance of the extent of the uncertainties relating to the ongoing availability of finance to the Group which might cast a significant doubt on the Group's ability to continue as a going concern;

(v) the Group's net cash flow from the operating activities remained unstable for FY2020, FY2021, FY2022 and IR2023;

(vi) the terms of interest-free of the amount due to CALT would not increase the interest burden of the Group;

(vii) the arrangement of the Transactions would allow the Group to retain the Group's cash for its business operation and short-term working capital needs;

(viii) CALT will not agree to extend the undertaking with the absence of the Share Charge;

(ix) based on the plan as advised by the management of the Company, such arrangement of the Transactions is the option available for the Company to avoid the insolvency, resulting in triggering the winding up of the Company on or before 20 November 2024, allow the Directors and the management of the Company to have additional time to turnaround the situation of the Group, continue to push forward the Debt-to-Equity Swap and protect the interests of the Company and the Shareholders;

(x) the principal terms of the amount due to CALT and the Share Charge agreements are on normal commercial terms, fair and reasonsable as discussed above in this paragraph;

(xi) other financing alternatives may not be feasible as discussed in the paragraph headed "5. Other financing alternatives" below in this letter; and

(xii) all the Independent Shareholders are entitled to vote for or against the resolutions in respect of the Transactions at the EGM,

we concur with the Directors' view that the Transactions are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

5. Other financing alternatives

As advised by the Directors, other financing alternatives, including debt financing and other forms of equity financing such as rights issue, open offer and placing of new shares to the Independent Third Parties, have been considered.

As discussed in the paragraph headed "2. Financial information of the Group" above in this letter, the net current liabilities and net liabilities position of the Group had improved from 31 December 2021 to 30 June 2023. However, as stated in the Interim Report, the Group still recorded a net current liabilities and net liabilities of approximately HK$1,157.2 million and HK$912.4 million as at 30 June 2023 respectively. According to the Directors, the Company has approached two financial institutions for debt financing. However, the Directors was informed that based on the preliminary assessment of the Group, including but not limited to, the operations, financial performance, financial position and the assets eligible for pledging at the material time, the Company will not be able to obtain bank loans with an amount comparable to the amount due to CALT. In light of this, we have further discussed with the management of the Company and are advised that if the Company would like to obtain debt financing from the financial institution, the Company have to maintain the bank balance in the financial institution of the same amount of the loan drawn (the ratio of pledged bank balance to the loan size is 1:1) or provide full guarantee from the controlling shareholder. However, the management of the Company advised that (i) the requirement of pledged bank balance is not feasible for the Company after considering the cash flow forecast as prepared for the year ending 31 December 2024; and (ii) the full guarantee to be provided by the controlling shareholder of the Company is not feasible because there is a requirement for all stated-owned entities (including the controlling shareholder of the Company) that stated-owned entities are only allowed to grant guarantee in proportion to the shareholding. In other word, this is not feasible for the controlling shareholder of the Company to provide full guarantee to the Company in relation to the bank loan of the Company. Also, the management of the Company are of the view that the amount due to CALT is an interest-free loan which would not increase the Group's interest burden. Based on the recent financial position of the Group, we concur with the Directors' view that it is difficult for the Company to obtain bank borrowing.

In addition to debt financing, we understand that the Directors had considered to conduct equity financing such as rights issue, open offer exercise or private placement. According to the Directors, based on the preliminary assessment of the Group, including but not limited to, the market capacity of the Company at the material time, the Company will not be able to obtain the proceed from equity financing such as placing, open offer or rights issue with an amount comparable to the amount due to CALT, which represent several multiples of the total market capitalisation of the Company. At the material time, the amount due to CALT was almost 3 times of the total market capitalisation of the Company. Also, the Directors are of the view that open offer and rights issue would incur additional costs such as underwriting commission, documentation costs of filing of a prospectus and the printing and handling of application forms and other professional fees than that of the Transactions and take a relatively longer timeframe of more than three months from the dispatch of the prospectus to commencement of dealing in the offer shares or rights shares (as the case may be) when compared to the Transactions.

In view of the above and (i) the reasons for and benefits of the Transactions as discussed in the paragraph headed "3. Reasons for and benefits of the Transactions" above in this letter; and (ii) the principal terms of the amount due to CALT and the Share Charge agreements are on normal commercial terms, fair and reasonable as discussed in the paragraph headed "4. Principal terms of the amount due to CALT and the Share Charge agreements" above in this letter, we concur with the Directors' view that the Transactions would be the best financing alternative available to the Company.

RECOMMENDATION

Having taken into consideration of the above factors and reasons, we are of the view and concur with the Directors' view that although the Transactions is not in the ordinary and usual course of the Group's business, the Transactions are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolution(s) at the EGM to approve the Transactions.

Yours faithfully,
For and on behalf of
Dakin Capital Limited
Tam Kin Fong
Managing Director

Note: Mr. Tam Kin Fong is a responsible officer of Dakin Capital Limited, which is licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has been active in the field of corporate finance advisory for over 20 years, and has been involved in and completed various corporate finance advisory transactions.

* *for identification purpose only*