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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of Shandong Hi-Speed New Energy Group Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Shandong Hi-Speed New Energy Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2023, and the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2022, and related notes as set out on Appendix III of the circular dated 15 November 2023 (the "Circular") issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix III of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the deemed disposal of approximately 44.46% equity interest of Tianjin Clean Energy Investment Company Limited (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") after the Restructuring (as further defined in the Circular) as a result the capital increase by an investor of RMB5,000,000,000 to the Target Company (hereinafter referred to as the "Capital Increase"), on the Group's financial position as at 30 June 2023 and the Group's financial performance and cash flows for the year ended 31 December 2022 as if the Capital Increase had taken place at 30 June 2023 and 1 January 2022, respectively. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited consolidated financial information for the period ended 30 June 2023, on which no audit/review report has been published, while information about the Group's financial performance and cash flows has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2022, on which an audit report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality management

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Capital Increase on unadjusted financial information of the Group as if the Capital Increase had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Capital Increase would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Capital Increase, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Capital Increase in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.


Certified Public Accountants
Hong Kong

15 November 2023

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the illustrative unaudited pro forma consolidated statement of financial position as at 30 June 2023, unaudited pro forma consolidated statement of profit or loss, unaudited pro forma consolidated statement of comprehensive income, and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2022 and related notes of the Group after the Capital Increase by an investor to the Target Company (further details are given below) (the “Unaudited Pro Forma Financial Information”) which has been prepared for the purpose of illustrating the effect of the Capital Increase (i) as if the Capital Increase had been completed on 30 June 2023 for the unaudited pro forma consolidated statement of financial position; and (ii) as if the Capital Increase had been completed on 1 January 2022 for the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2022.

The unaudited pro forma consolidated statement of financial position of the Group is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2023 as extracted from the published Interim Report 2023 after making pro forma adjustments relating to the Capital Increase that are factually supportable and directly attributable to the Capital Increase.

The unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Group are prepared based on the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2022 as extracted from the published Annual Report 2022 after making pro forma adjustments relating to the Capital Increase that are factually supportable and directly attributable to the Capital Increase.

The unaudited Pro Forma Financial Information is prepared in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and has been prepared by the Directors of the Company for illustrative purposes only.

The Unaudited Pro Forma Financial Information of the Group has been prepared by the Directors of the Company based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not reflect the true picture of the financial position, the financial performance and cash flows of the Group had the Capital Increase been completed as of the specified dates or any other dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published Interim Report 2023, Annual Report 2022 and other financial information included elsewhere in this Circular.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Group as at 30 June 2023

	The Group <i>HK\$'000</i> <i>(Note 1)</i>	Pro Forma adjustments <i>HK\$'000</i> <i>(Note 2)</i>	Pro Forma adjustments <i>HK\$'000</i> <i>(Note 3)</i>	Unaudited Pro Forma of the Group <i>HK\$'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	25,483,282	-	-	25,483,282
Investment properties	162,000	-	-	162,000
Goodwill	482,222	-	-	482,222
Operating concessions	1,506,831	-	-	1,506,831
Operating rights	1,348,126	-	-	1,348,126
Other intangible assets	19,846	-	-	19,846
Investments in joint ventures	353,239	-	-	353,239
Investments in associates	1,299,797	-	-	1,299,797
Prepayments, deposits and other receivables	2,444,596	-	-	2,444,596
Other tax recoverables	335,837	-	-	335,837
Deferred tax assets	<u>406,356</u>	<u>-</u>	<u>-</u>	<u>406,356</u>
Total non-current assets	<u>33,842,132</u>	<u>-</u>	<u>-</u>	<u>33,842,132</u>
CURRENT ASSETS				
Inventories	74,525	-	-	74,525
Contract assets	710,841	-	-	710,841
Trade and bills receivables	8,794,657	-	-	8,794,657
Financial assets at fair value through profit or loss	570,438	-	-	570,438
Prepayments, deposits and other receivables	2,007,893	-	-	2,007,893
Other tax recoverables	146,258	-	-	146,258
Restricted cash and pledged deposits	270,074	-	-	270,074
Cash and cash equivalents	<u>3,178,265</u>	<u>5,450,000</u>	<u>(5,450,000)</u>	<u>3,178,265</u>
Assets classified as held for sale	<u>15,752,951</u> <u>739,302</u>	<u>5,450,000</u> <u>-</u>	<u>(5,450,000)</u> <u>-</u>	<u>15,752,951</u> <u>739,302</u>
Total current assets	<u>16,492,253</u>	<u>5,450,000</u>	<u>(5,450,000)</u>	<u>16,492,253</u>
CURRENT LIABILITIES				
Trade and bills payables	1,697,088	-	-	1,697,088
Other payables and accruals	1,646,593	-	-	1,646,593
Interest-bearing bank and other borrowings	8,607,320	-	(2,387,181)	6,220,139
Income tax payables	<u>212,771</u>	<u>-</u>	<u>-</u>	<u>212,771</u>
Total current liabilities	<u>12,163,772</u>	<u>-</u>	<u>(2,387,181)</u>	<u>9,776,591</u>

Unaudited Pro Forma Consolidated Statement of Financial Position of the Group as at 30 June 2023 (continued)

	The Group <i>HK\$'000</i> <i>(Note 1)</i>	Pro Forma adjustments <i>HK\$'000</i> <i>(Note 2)</i>	Pro Forma adjustments <i>HK\$'000</i> <i>(Note 3)</i>	Unaudited Pro Forma of the Group <i>HK\$'000</i>
NET CURRENT ASSETS	<u>4,328,481</u>	<u>5,450,000</u>	<u>(3,062,819)</u>	<u>6,715,662</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>38,170,613</u>	<u>5,450,000</u>	<u>(3,062,819)</u>	<u>40,557,794</u>
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	22,996,639	-	(3,062,819)	19,933,820
Corporate bonds	428,245	-	-	428,245
Other non-current liabilities	12,466	-	-	12,466
Deferred tax liabilities	<u>304,604</u>	<u>-</u>	<u>-</u>	<u>304,604</u>
Total non-current liabilities	<u>23,741,954</u>	<u>-</u>	<u>(3,062,819)</u>	<u>20,679,135</u>
Net assets	<u>14,428,659</u>	<u>5,450,000</u>	<u>-</u>	<u>19,878,659</u>
EQUITY				
Equity attributable to equity holders of the Company				
Share capital	112,329	-	-	112,329
Reserves	<u>13,822,630</u>	<u>117,854</u>	<u>-</u>	<u>13,940,484</u>
Non-controlling interests	<u>13,934,959</u>	<u>117,854</u>	<u>-</u>	<u>14,052,813</u>
	<u>493,700</u>	<u>5,332,146</u>	<u>-</u>	<u>5,825,846</u>
Total equity	<u>14,428,659</u>	<u>5,450,000</u>	<u>-</u>	<u>19,878,659</u>

Unaudited Pro Forma Consolidated Statement of Profit or Loss of the Group for the year ended 31 December 2022

	The Group <i>HK\$'000</i> <i>(Note 4)</i>	Pro Forma adjustments <i>HK\$'000</i> <i>(Note 5)</i>	Pro Forma adjustments <i>HK\$'000</i> <i>(Note 6)</i>	Unaudited Pro Forma of the Group <i>HK\$'000</i>
REVENUE	5,296,197	-	-	5,296,197
Cost of sales	<u>(2,735,702)</u>	<u>-</u>	<u>-</u>	<u>(2,735,702)</u>
Gross profit	2,560,495	-	-	2,560,495
Other income and gains, net	218,946	-	-	218,946
Selling and distribution expenses	<u>(2,505)</u>	-	-	<u>(2,505)</u>
Administrative expenses	<u>(512,818)</u>	-	-	<u>(512,818)</u>
Other operating expenses, net	<u>(207,631)</u>	-	-	<u>(207,631)</u>
Finance costs	<u>(1,803,324)</u>	-	204,339	<u>(1,598,985)</u>
Share of profits and losses of:		-	-	
Joint ventures	4,544	-	-	4,544
Associates	<u>25,759</u>	<u>-</u>	<u>-</u>	<u>25,759</u>
PROFIT BEFORE TAX	<u>283,466</u>	<u>-</u>	<u>204,339</u>	<u>487,805</u>
Income tax expense	<u>(57,655)</u>	<u>-</u>	<u>-</u>	<u>(57,655)</u>
PROFIT FOR THE YEAR	<u>225,811</u>	<u>-</u>	<u>204,339</u>	<u>430,150</u>
Attributable to:				
Equity holders of the Company	258,236	(174,532)	185,366	269,070
Non-controlling interests	<u>(32,425)</u>	<u>174,532</u>	<u>18,973</u>	<u>161,080</u>
	<u>225,811</u>	<u>-</u>	<u>204,339</u>	<u>430,150</u>

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Group for the year ended 31 December 2022

	The Group HK\$'000 (Note 4)	Pro Forma adjustments HK\$'000 (Note 5)	Pro Forma adjustments HK\$'000 (Note 6)	Unaudited Pro Forma of the Group HK\$'000
PROFIT FOR THE YEAR	225,811	-	204,339	430,150
OTHER COMPREHENSIVE LOSS				
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>				
Exchange fluctuation reserve:				
Translation of foreign operations	(1,779,414)	-	-	(1,779,414)
Share of other comprehensive loss of joint ventures	(38,186)	-	-	(38,186)
Share of other comprehensive loss of associates	(87,819)	-	-	(87,819)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(1,905,419)	-	-	(1,905,419)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(1,679,608)	-	204,339	(1,475,269)
Attributable to:				
Equity holders of the Company	(1,498,588)	(174,532)	185,366	(1,487,754)
Non-controlling interests	(181,020)	174,532	18,973	12,485
	(1,679,608)	-	204,339	(1,475,269)

Unaudited Pro Forma Consolidated Cash Flow Statement of the Group for the year ended 31 December 2022

	The Group <i>HK\$'000</i> <i>(Note 4)</i>	Pro Forma adjustme nts <i>HK\$'000</i> <i>(Note 5)</i>	Pro Forma adjustments <i>HK\$'000</i> <i>(Note 6)</i>	Unaudited Pro Forma of the Group <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	283,466	-	-	283,466
Adjustments for:				
Interest income	(38,530)	-	-	(38,530)
Gains on bargain purchase of subsidiaries	(2,243)	-	-	(2,243)
Gains on disposal of subsidiaries	(682)	-	-	(682)
Fair value gain on financial assets at fair value through profit or loss	(10,650)	-	-	(10,650)
Contingent consideration adjustment arising from acquisition in prior years	(38,711)	-	-	(38,711)
Gains on debt restructuring	(37,878)	-	-	(37,878)
Losses on disposal of property, plant and equipment	13,336	-	-	13,336
Depreciation of property, plant and equipment	1,450,442	-	-	1,450,442
Amortisation of operating concessions	91,274	-	-	91,274
Amortisation of operating rights	34,494	-	-	34,494
Amortisation of other intangible assets	3,137	-	-	3,137
Equity-settled share option expenses	2,031	-	-	2,031
Impairment of financial assets	24,480	-	-	24,480
Impairment of property, plant and equipment	92,210	-	-	92,210
Reversal of impairment of operating concessions	(59,884)	-	-	(59,884)
Impairment of operating rights	19,881	-	-	19,881
Impairment of goodwill	42,093	-	-	42,093
Finance costs	1,803,324	-	-	1,803,324
Fair value loss on financial guarantees	3,328	-	-	3,328
Share of profits of joint ventures	(4,544)	-	-	(4,544)
Share of profits of associates	(25,759)	-	-	(25,759)
	<u>3,644,615</u>	<u>-</u>	<u>-</u>	<u>3,644,615</u>
Increase in inventories	(10,037)	-	-	(10,037)
Decrease in contract assets	206,690	-	-	206,690
Decrease in trade and bills receivables	939,527	-	-	939,527
Increase in prepayments, deposits and other receivables	(342,203)	-	-	(342,203)
Decrease in other tax recoverables	397,433	-	-	397,433
Decrease in trade and bills payables	(1,045,901)	-	-	(1,045,901)
Increase in other payables and accruals	<u>122,754</u>	<u>-</u>	<u>-</u>	<u>122,754</u>
Cash generated from operations	3,912,878	-	-	3,912,878
The People's Republic of China tax paid	(248,292)	-	-	(248,292)
Net cash from operating activities	<u>3,664,586</u>	<u>-</u>	<u>-</u>	<u>3,664,586</u>

Unaudited Pro Forma Consolidated Cash Flow Statement of the Group for the year ended 31 December 2022 (continued)

	The Group <i>HK\$'000</i> <i>(Note 4)</i>	Pro Forma adjustments <i>HK\$'000</i> <i>(Note 5)</i>	Pro Forma adjustments <i>HK\$'000</i> <i>(Note 6)</i>	Unaudited Pro Forma of the Group <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	38,530	-	-	38,530
Purchases of items of property, plant and equipment	(966,375)	-	-	(966,375)
Proceeds from disposal of items of property, plant and equipment	9,461	-	-	9,461
Consideration adjustments of operating concessions	50,663	-	-	50,663
Addition of other intangible assets	(2,947)	-	-	(2,947)
Addition of financial assets at fair value through profit or loss	(320,280)	-	-	(320,280)
Proceeds from disposal of financial assets at fair value through profit or loss	462,306	-	-	462,306
Investments in joint ventures	(1,252)	-	-	(1,252)
Investments in associates	(17,440)	-	-	(17,440)
Acquisition of subsidiaries	(251,611)	-	-	(251,611)
Disposal of subsidiaries	(6,414)	-	-	(6,414)
Increase in deposits for potential business acquisitions	(156,690)	-	-	(156,690)
Decrease in payables in relation to the development of clean energy projects	(297,972)	-	-	(297,972)
Increase in restricted cash and pledged deposits	(40,562)	-	-	(40,562)
Decrease in loan and advances to suppliers, customers and former shareholders in relation to acquisitions	157,683	-	-	157,683
Change in other non-current assets/liabilities, other current liabilities and receivables from potential acquisition companies, net	(39,764)	-	-	(39,764)
Net cash used in investing activities	(1,382,664)	-	-	(1,382,664)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	4,685,188	-	-	4,685,188
Capital contributions by non-controlling equity holder	-	5,450,000	-	5,450,000
Decrease increase in financial liabilities from potential non-controlling interests	(2,887,077)	-	-	(2,887,077)
Acquisition of non-controlling interests	(20,048)	-	-	(20,048)
Net proceeds from issuance of a corporate bond	(586,896)	-	-	(586,896)
New bank loans and other borrowings	13,723,272	-	-	13,723,272
Repayment of bank loans and other borrowings	(13,081,197)	-	(5,450,000)	(18,531,197)
Changes of deposits under leases	110,846	-	-	110,846
Interest on bank loans and other borrowings and corporate bonds paid	(1,594,530)	-	204,339	(1,390,191)
Net cash from financing activities	349,558	5,450,000	(5,245,661)	553,897
NET INCREASE IN CASH AND CASH EQUIVALENTS				
Cash and cash equivalents at beginning of year	2,631,480	5,450,000	(5,245,661)	2,835,819
Effect of foreign exchange rate changes, net	(135,048)	-	-	(135,048)
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>3,637,264</u>	<u>5,450,000</u>	<u>(5,245,661)</u>	<u>3,841,603</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and cash equivalents as stated in the statement of financial position	3,637,264	5,450,000	(5,245,661)	3,841,603
Cash and cash equivalents as stated in the statement of cash flows	3,637,264	5,450,000	(5,245,661)	3,841,603

Notes to the Unaudited Pro Forma Financial Information of the Group

- The amounts are extracted from the unaudited consolidated statement of financial position of the Group for the six months ended 30 June 2023 as set out in the published interim report of the Company for the six months ended 30 June 2023.
- Subsequent to the Capital Increase, the Group's aggregate equity interest in the Target Company will be diluted from 100.00% to approximately 55.54%.

The impact of the Capital Increase on the Company's attributable interest in the Target Group assuming that the Capital Increase had been completed on 30 June 2023 is analysed as follows:

	<i>RMB'000</i>	<i>HKD'000</i>	
The equity of the Target Group attributable to its equity holders as at 30 June 2023 before the Capital Increase (<i>note (i)</i> below)	<u>6,002,873</u>	<u>6,543,131</u>	
The Group's shareholding in the Target Group as at 30 June 2023 before the Capital Increase	100.00%	100.00%	
The equity of the Target Group attributable to the Group as at 30 June 2023 before the Capital Increase	<u>6,002,873</u>	<u>6,543,131</u>	A
Capital Increase made by the investor (<i>note (ii)</i>)	<u>5,000,000</u>	<u>5,450,000</u>	B
The equity of the Target Group attributable to its equity holders as at 30 June 2023 subsequent to the completion of the Capital Increase	<u>11,002,873</u>	<u>11,993,131</u>	C=A+B
The Group's shareholding in the Target Group as at 30 June 2023 subsequent to the completion of the Capital Increase	55.54%	55.54%	D
The equity of the Target Group attributable to the Group as at 30 June 2023 subsequent to the completion of the Capital Increase	<u>6,110,996</u>	<u>6,660,985</u>	E=C*D
The equity of the Target Group attributable to the minority interests as at 30 June 2023 subsequent to the completion of the Capital Increase	<u>4,891,877</u>	<u>5,332,146</u>	F=C-E
Deemed disposal gain upon the completion of the Capital Increase as at 30 June 2023 (<i>note (iii)</i>)	<u>108,123</u>	<u>117,854</u>	G=E-A =B-F

Notes to the Unaudited Pro Forma Financial Information of the Group (continued)

Notes:

- (i) For the purpose of preparing the Unaudited Pro Forma Financial Information, the equity of The Target Group attributable to its equity holders of RMB6,002,873,000 as at 30 June 2023 is extracted from the unaudited combined balance sheet of The Target Group as at 30 June 2023 as set out in Appendix II to the Circular, on which no audit or review report has been published.
 - (ii) On 24 October 2023, Tianjin Beiqing Smart Energy Company Limited, Shandong Hi-Speed Group Co., Ltd., the Company, the Investor and the Target Company, entered into the capital increase agreement (the “Capital Increase Agreement”). Pursuant to the Capital Increase Agreement, the investor has conditionally agreed to make cash contribution of RMB5,000,000,000 (equivalent to approximately HK\$5,450,000,000) to the Target Company (the “Capital Increase”). Upon completion of the Capital Increase, the investor will own approximately 44.46% equity interest in the Target Group and the Group’s equity interest in the Target Group will be diluted from 100.00% to approximately 55.54%.
 - (iii) In the opinion of the Directors, although the Group’s interest in the Target Group will be reduced to approximately 55.54% subsequent to the completion of the Capital Increase as at 30 June 2023, the Target Group will continue to remain as a subsidiary of the Company. The partial disposal of the Target Group is considered as a deemed disposal of the 44.46% equity interest in the Target Group to non-controlling interests which should be accounted for as an equity transaction with non-controlling interests. Accordingly, this pro forma adjustment reflects the effect of the deemed disposal gain to the of 44.46% equity interest in the Target Group. This pro forma adjustment is not expected to have a continuing effect on the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Group.
3. The pro forma adjustment represents, the use of the cash received from the Capital Increase to repay banks and other borrowings of the Group of RMB5,000,000,000 (equivalent to approximately HK\$5,450,000,000) as at 30 June 2023.

Notes to the Unaudited Pro Forma Financial Information of the Group (continued)

4. The amounts are extracted from the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2022, as set out in the published annual report of the Company for the year ended 31 December 2022.
5. The pro forma adjustment represents, for the purpose of the unaudited pro forma financial information, the increase in share of profit of the Target Company by the non-controlling interests for the year ended 31 December 2022 as if the Capital Increase had been completed on 1 January 2022.

The impact relating to the Capital Increase on the Group's financial performance attributable to the Target Group assuming that the Capital Increase had been completed on 1 January 2022 is analysed as follows:

	<i>RMB'000</i>	<i>HKD'000</i>	
The net profit attributable to its equity holders of the Target Group for the year ended 31 December 2022 before the Capital Increase (<i>note (iv)</i>)	<u>360,134</u>	<u>392,559</u>	A
Percentage of the Group's equity interests in the Target Group being diluted by the Capital Increase	44.46%	44.46%	B
Decrease in the net profit of the Target Group attributable to the Group for the year ended 31 December 2022 due to dilution of the Group's equity interests in the Target Group (<i>note (v)</i>)	<u>160,116</u>	<u>174,532</u>	C=A*B

- (iv) For the purpose of preparing the Unaudited Pro Forma Financial Information, the net profit attributable to its equity holders of the Target Group for the year ended 31 December 2022 is extracted from the unaudited combined income statement of the Target Group for the year ended 31 December 2022 as set out in Appendix II to the Circular, on which no audit or review report has been published.
- (v) The pro forma adjustment in respect of the decrease in the net profit of the Target Group attributable to the Group for the year ended 31 December 2022 due to dilution of the Group's interests in the Target Group is calculated as the difference between the net profit of the Target Group attributable to the Group for the year ended 31 December 2022 as at 1 January 2022 before and subsequent to the completion of the Capital Increase on the basis that the Capital Increase had been completed on 1 January 2022. This pro forma adjustment is expected to have a continuing effect on the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Group.

Notes to the Unaudited Pro Forma Financial Information of the Group (continued)

The Capital Increase will lead to an increase in capital contributions by non-controlling equity holder of HK\$5,450,000,000 in the unaudited pro forma consolidated cash flow statement of the Group for the year ended 31 December 2022.

6. The pro forma adjustment represents the reduced financial expenses as a result used to repay bank and other borrowings. Repayment of the Group's bank and other borrowings of RMB5,000,000,000 (equivalent to approximately HK\$5,450,000,000), leading to a decrease in financial expenses of HK\$204,339,000 and an increase in the net profit of the Target Group attributable to minority interests of HK\$18,973,000 for the year ended 31 December 2022.
7. Except for the Capital Increase, no adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 30 June 2023.