

20 September 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(1) CONTINUING CONNECTED TRANSACTIONS
ELECTRICITY PURCHASE FRAMEWORK AGREEMENTS;
AND
(2) MAJOR TRANSACTIONS AND CONNECTED TRANSACTIONS IN
RELATION TO (a) EPC CONTRACT FOR 10KV AND BELOW PROJECT;
(b) EQUIPMENT AND MATERIALS PROCUREMENT CONTRACT;
(c) EPC CONTRACT FOR 35KV AND ABOVE PROJECT;
(d) EPC CONTRACT FOR AUTOMATION ENGINEERING PROJECT; AND
(e) CONSTRUCTION SUPERVISION CONTRACT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the (i) Electricity Purchase Framework Agreements as well as the proposed annual caps for the transactions contemplated under the Electricity Purchase Framework Agreements for each of the three years ending 31 December 2024, 2025 and 2026; and (ii) the 2023 Rural Power Grid Contracts and the transactions contemplated thereunder, details of which are set out in the section headed “Letter from the Board” in the Company’s circular dated 20 September 2024, of which this letter forms part. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. Terms used in this letter shall have the same meanings as defined in this circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 16 May 2024 regarding on the same day after trading hours, (i) the Company entered into the Yibin Zhangwo Electricity Purchase Framework Agreement with Yibin Zhangwo; and (ii) the Company entered into the Shuifu Hongli Electricity Purchase Framework Agreement with Shuifu Hongli. Pursuant to the Yibin Zhangwo Electricity Purchase Framework Agreement and the Shuifu Hongli Electricity Purchase Framework Agreement, Yibin Zhangwo and Shuifu Hongli shall respectively supply electricity to the Company and its subsidiaries from the effective date of the respective agreement and up to 31 December 2026.

Reference is also made to the announcement of the Company dated 3 July 2024 in relation to, among others, (1) the EPC Contract for 10kV and Below Project; (2) the Equipment and Materials Procurement Contract; (3) the EPC Contract for 35kV and Above Project; (4) the EPC Contract for Automation Engineering Project; and (5) the Construction Supervision Contract.

On 3 July 2024, after trading hours:

- (i) the 10kV and Below Project Implementation Units (all of which are subsidiaries of the Company) entered into the EPC Contract for 10kV and Below Project with, among others, Hydropower Group, Sichuan Energy Construction, Sichuan Energy Consolidated Energy and Sichuan Energy Investment Development Construction, pursuant to which Sichuan Energy Construction, Sichuan Energy Consolidated Energy and Sichuan Energy Investment Development Construction agreed to provide engineering, procurement and construction services for the 10kV and Below Project;
- (ii) the 10kV and Below Project Implementation Units (all of which are subsidiaries of the Company) entered into the Equipment and Materials Procurement Contract with, among others, Hydropower Group and Materials Industry Group, pursuant to which, Materials Industry Group agreed to provide procurement of equipment and materials service for the 10kV and Below Project;
- (iii) the 35kV and Above Project Implementation Units (all of which are subsidiaries of the Company) entered into the EPC Contract for 35kV and Above Project with Hydropower Group, Sichuan Energy Construction, Sichuan Energy Consolidated Energy and Sichuan Energy Investment Development Construction, pursuant to which, Sichuan Energy Construction, Sichuan Energy Consolidated Energy and Sichuan Energy Investment Development Construction agreed to provide engineering, procurement and construction services for the 35kV and Above Project;
- (iv) the Automation Engineering Project Implementation Units (all of which are subsidiaries of the Company) entered into the EPC Contract for Automation Engineering Project with among others, Hydropower Group, Sun Technology and Sichuan Energy Consolidated Energy, pursuant to which, Sun Technology and Sichuan Energy Consolidated Energy agreed to provide engineering, procurement and construction services for the communication and auxiliary control and automation improvement engineering and communication improvement engineering of the Automation Engineering Project; and
- (v) the Construction Supervision Implementation Units (all of which are subsidiaries of the Company) entered into the Construction Supervision Contract with, among others, Hydropower Group and Sichuan Yilian, pursuant to which, Sichuan Yilian agreed to provide construction supervision service.

Electricity Purchase Framework Agreements

The Group have been purchasing electricity from Zhangwo Power Station and Dayukong Power Station since October 2017 and February 2013, respectively. It has come to the attention of the Company that Zhangwo Power Station and Dayukong Power Station were subsequently held under Yibin Zhangwo and Shuifu Hongli respectively, which then in turn underwent several rounds of internal reorganisation. As at the date of this announcement, the majority equity interests of Yibin Zhangwo and Shuifu Hongli were held by Jinding Group, which was in turn held by Hydropower Group and Energy Investment Group. The purchases of electricity by the Group from Zhangwo Power Station and Dayukong Power Station constitute continuing connected transactions of the Group.

As at the Latest Practicable Date, each of Yibin Zhangwo and Shuifu Hongli was held as to approximately 66.67% by Jinding Group, which was in turn held as to approximately 69.39% by Hydropower Group and approximately 30.61% by Energy Investment Group. Both Hydropower Group and Energy Investment Group are the controlling Shareholders of the Company, and hence each of Yibin Zhangwo and Shuifu Hongli is an associate of the controlling shareholders of the Company. Accordingly, each of Yibin Zhangwo and Shuifu Hongli is a connected person of the Company under Rule 14A.07 of the Listing Rules.

Pursuant to Rule 14A.81 to Rule 14A.83 of the Listing Rules, the respective transactions contemplated under the Electricity Purchase Framework Agreements are required to be aggregated as the Electricity Purchase Framework Agreements were entered into by the Company with the same group of connected persons (both Yibin Zhangwo and Shuifu Hongli are both indirectly majority held by Hydropower Group and Energy Investment Group (the controlling Shareholders of the Company)), and the nature of transactions contemplated under the Electricity Purchase Framework Agreements are identical. As the highest applicable percentage ratio in respect of the annual caps for the transactions contemplated under the Electricity Purchase Framework Agreements on an aggregated basis exceeds 5%, the transactions contemplated under the Electricity Purchase Framework Agreements will be subject to the reporting, announcement, annual review, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2023 Rural Power Grid Contracts

(a) EPC Contract for 10kV and Below Project

As at the Latest Practicable Date, Hydropower Group is one of the controlling shareholders of the Company and certain Other 10kV and Below Project Implementation Units are associates of Hydropower Group. Sichuan Energy Construction is a direct subsidiary of Energy Investment Group, which is one of the controlling shareholders of the Company. Sichuan Energy Consolidated Energy is a wholly-owned subsidiary of Hydropower Group, which is one of the controlling shareholders of the Company. Accordingly, Hydropower Group, Sichuan Energy Construction, Sichuan Energy Consolidated Energy and certain Other 10kV and Below Project Implementation Units are connected persons of the Company under Rule 14A.07 of the Listing Rules and the transactions contemplated under the EPC Contract for 10kV and Below Project constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

(b) Equipment and Materials Procurement Contract

As at the Latest Practicable Date, Hydropower Group is one of the controlling shareholders of the Company and certain Other 10kV and Below Project Implementation Units are associates of Hydropower Group. Materials Industry Group is a wholly-owned subsidiary of Energy Investment Group, which is one of the controlling shareholders of the Company. Accordingly, Hydropower Group, Materials Industry Group and certain Other 10kV and Below Project Implementation Units are connected persons of the Company under Rule 14A.07 of the Listing Rules and the transactions contemplated under the Equipment and Materials Procurement Contract constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

(c) EPC Contract for 35kv and Above Project

As at the Latest Practicable Date, Hydropower Group is one of the controlling shareholders of the Company and certain Other 35kV and Above Project Implementation Units are associates of Hydropower Group. Sichuan Energy Construction is a direct subsidiary of Energy Investment Group, which is one of the controlling shareholders of the Company. Sichuan Energy Consolidated Energy is a wholly-owned subsidiary of Hydropower Group, which is one of the controlling shareholders of the Company. Accordingly, Hydropower Group, Sichuan Energy Construction, Sichuan Energy Consolidated Energy and certain Other 35kV and Above Project Implementation Units are connected persons of the Company under Rule 14A.07 of the Listing Rules and the transactions contemplated under the EPC Contract for 35kV and Above Project constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

(d) EPC Contract for Automation Engineering Project

As at the Latest Practicable Date, Hydropower Group is one of the controlling shareholders of the Company and certain Other Automation Engineering Project Implementation Units are associates of Hydropower Group. Sun Technology is a direct subsidiary of Hydropower Group, which is one of the controlling shareholders of the Company. Sichuan Energy Consolidated Energy is a wholly-owned subsidiary of Hydropower Group, which is one of the controlling shareholders of the Company. Accordingly, Hydropower Group, Sun Technology, Sichuan Energy Consolidated Energy and certain Other Automation Engineering Project Implementation Units are connected persons of the Company under Rule 14A.07 of the Listing Rules and the transactions contemplated under the EPC Contract for Automation Engineering Project constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

(e) Construction Supervision Contract

As at the Latest Practicable Date, Hydropower Group is one of the controlling shareholders of the Company and certain Other Construction Supervision Implementation Units are associates of Hydropower Group. Sichuan Yilian is a subsidiary of Energy Investment Group which is one of the controlling shareholders of the Company. Accordingly, Hydropower Group, Sichuan Yilian and the Other Construction Supervision Implementation Units are connected persons of the Company under Rule 14A.07 of the Listing Rules and the transactions contemplated under the Construction Supervision Contract constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio in respect of the transactions contemplated under the 2023 Rural Power Grid Contracts on an aggregated basis (i) exceeds 25% but is less than 100%, the transactions contemplated thereunder constitute major transactions of the Company which are subject to the reporting, announcement, circular and the Shareholders' approval requirements under Chapter 14 of the Listing Rules; and (ii) exceeds 5% and the total consideration is more than HK\$10,000,000, the transactions contemplated thereunder constitute connected transactions of the Company and is subject to reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Based on the Company's past experience and estimation, the estimated maximum final settlement price of the EPC Contract for 10kV and Below Project, the Equipment and Materials Procurement Contract, the EPC Contract for 35kV and Above Project, the EPC Contract for Automation Engineering Project and the Construction Supervision Contract is expected to have a fluctuation of no more than 5% from the contract price. If the actual final settlement price of the 2023 Rural Power Grid Contracts exceeds the estimated maximum final settlement price, the Company will make relevant announcement(s) as and when necessary and fulfill the relevant requirements under the Listing Rules (if applicable).

As Mr. He Jing, Mr. Wang Yuanchun and Ms. Xie Peixi are the Directors nominated by Hydropower Group, they have abstained from voting on the Board resolutions to approve the Electricity Purchase Framework Agreements and the 2023 Rural Power Grid Contracts voluntarily. Save as disclosed above, none of the Directors have material interest in the Electricity Purchase Framework Agreements and hence no other Director was required to abstain from voting on the relevant resolutions approving the same.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Siu Chi Hung, Mr. Chen Chuan, Mr. Mou Yingshi, Prof. Li Jian and Ms. He Yin, has been formed to advise the Independent Shareholders in respect of the transactions contemplated under the Electricity Purchase Framework Agreements and the 2023 Rural Power Grid Contracts.

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, there were no other engagements between the Group and Messis Capital Limited. Apart from normal professional fees for our services to the Company in connection with the aforesaid engagement and this appointment as the Independent Financial Adviser, no other arrangement exists whereby we have received/will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, pursuant to Rule 13.84 of the Listing Rules, we are independent from, and are not associated with the Company or their respective substantial shareholder(s) or connected person(s) as defined under the Listing Rules, and accordingly are considered eligible to give independent advice on the transactions contemplated under the Electricity Purchase Framework Agreements and the 2023 Rural Power Grid Contracts.

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 this circular and the information and representations provided to us by the Company, the Directors and the management of the Company (“**Management**”). We have no reason to believe that any information or representation 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 this circular, which have been provided by the Company, the Directors and the Management 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 and should there be any material changes after the despatch of this circular, the Shareholders would be notified as soon as possible.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in this circular and have confirmed in this circular, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

We consider that we have reviewed sufficient information, including relevant information and documents provided by the Company and the Directors and the information published by the Company, to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in this circular to provide a reasonable basis for our opinions and recommendations. We have not, however, carried out any independent verification of the information provided by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation in respect of the terms of the Electricity Purchase Framework Agreements and 2023 Rural Power Grid Contracts, we have taken into account the following principal factors and reasons:

I. THE CONTINUING CONNECTED TRANSACTIONS UNDER ELECTRICITY PURCHASE FRAMEWORK AGREEMENTS

1. Background information of the Group

The Group

The Company is a vertically integrated power supplier and service provider in Yibin City, Sichuan Province, with a full power supply value chain covering power generation and electricity distribution and sales.

(a) *Financial information of the Group for the year ended 31 December 2022 and 2023, respectively*

The tables below summarise the financial results of the Group for the year ended 31 December 2022 and 2023 respectively as extracted from the annual report of the Company for the year ended 31 December 2023 and the interim results of the Company for the six months ended 30 June 2023 and 2024 respectively as extracted from the interim results announcement of the Company dated 28 August 2024.

Table 1: Consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2022 and 2023

	For the year ended 31 December	
	2023 (audited) RMB' million	2022 (audited) RMB' million
Revenue	4,160.2	3,313.3
(a) principal business	4,151.8	3,309.6
(i) General Power Supply Business	3,323.0	2,524.3
(ii) Incremental power transmission and distribution business	358.8	384.4
(iii) EECS business	470.0	400.9
(b) other businesses	8.4	3.6
Gross (loss)/profit	675.9	572.4
Administrative expenses	235.8	203.8
Finance costs	13.3	8.6
Other income	2.5	2.3
Investment income	4.6	13.1
Credit impairment losses	(20.1)	(3.1)
Asset impairment losses	(9.8)	(0.7)
Gains on asset disposal	15.5	0.006
Operating profit	403.2	352.5
Profit before income tax	409.2	361.5
Net profit for the year	342.0	302.5
Net profit for the year attributable to the Shareholders	339.0	301.4
Net profit for the year attributable to non-controlling interest	3.0	1.1

The revenue of the Group increased from approximately RMB3,313.3 million to approximately RMB4,160.2 million from the year ended 31 December 2022 to the year ended 31 December 2023, which was primarily due to the increase in principal business by approximately RMB842.2 million, mainly resulting from the increase in revenue generated from general power supply business by approximately 31.6% from approximately RMB2,524.3 million for the year ended 31 December 2022 to approximately RMB3,323.0 million for the year ended 31 December 2023.

The operating profit of the Group increased by approximately 14.4% from approximately RMB352.5 million for the year ended 31 December 2022 to approximately RMB403.2 million for the year ended 31 December 2023, which was primarily due to (i) the increase in gross profit by approximately 18.1% from approximately RMB572.4 million for the year ended 31 December 2022 to approximately RMB675.9 million for the year ended 31 December 2023; and (ii) increase in gains on asset disposal by RMB15.5 million during such period; which was partially offset by (a) the increase in finance costs by approximately RMB4.7 million from approximately RMB8.6 million to approximately RMB13.3 million; (b) the decrease in investment income by approximately RMB8.5 million from approximately RMB13.1 million to approximately RMB4.6 million during such period; (c) increase in credit impairment losses by approximately RMB17.0 million from approximately RMB3.1 million to approximately RMB20.1 million; and (d) increase in asset impairment losses by approximately RMB9.1 million from approximately RMB0.7 million to approximately RMB9.8 million during such period.

The net profit of the Company increased by approximately 13.1% from approximately RMB302.5 million for the year ended 31 December 2022 to approximately RMB342.0 million for the year ended 31 December 2023.

Table 2: Financial position of the Group as at 31 December 2022 and 2023

	As at 31 December	
	2023 (audited) RMB' million	2022 (audited) RMB' million
Current assets	1,563.0	1,372.8
Non-current assets	4,761.8	3,775.2
Total assets	6,324.8	5,148.0
Current liabilities	1,907.0	1,511.6
Non-current liabilities	1,014.0	451.2
Total liabilities	2,921.0	1,962.8
Total equity	3,403.8	3,185.2
Total equity attributable to Shareholders	3,355.3	3,147.4

The Group's assets increased from approximately RMB5,148 million as at 31 December 2022 to approximately RMB6,324.8 million as at 31 December 2023, representing an increase of 22.9%, which was mainly due to (i) the increase in current assets by approximately 13.9% from approximately RMB1,372.8 million as at 31 December 2022 to approximately RMB1,563 million as at 31 December 2023; and (ii) the increase in non-current assets by 26.1% from approximately RMB3,775.2 million as at 31 December 2022 to RMB4,761.8 million as at 31 December 2023, mainly resulting from the (a) increase in long-term equity investments from approximately RMB243.0 million as at 31 December 2022 to approximately RMB369.3 million as at 31 December 2023; and (b) the increase in deferred income tax assets by approximately RMB17.7 million from approximately RMB37.6 million as at 31 December 2022 to approximately RMB55.3 million as at 31 December 2023.

The Group's liabilities increased by approximately 48.8% from approximately RMB1,962.8 million as at 31 December 2022 to approximately RMB2,921.0 million as at 31 December 2023, which was primarily due to (i) the increase in current liabilities by approximately 26.2% from approximately RMB1,511.6 million as at 31 December 2022 to approximately RMB1,907.0 million as at 31 December 2023; and (ii) the increase in total non-current liabilities by approximately 1.25 times from approximately RMB451.2 million as at 31 December 2022 to approximately RMB1,014.0 million as at 31 December 2023, mainly resulting from (i) the increase in long-term borrowings from nil as at 31 December 2022 to RMB323.5 million as at 31 December 2023; and (ii) the increase in long-term payables from approximately RMB294.0 million as at 31 December 2022 to RMB546.0 million as at 31 December 2023.

The Group's equity increased from approximately RMB3,147.4 million as of 31 December 2022 to approximately RMB3,355.3 million as of 31 December 2023, which is in line with the increase in total assets and total liabilities respectively.

Table 3: Consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2023 and 2024

	For the six months ended 30 June	
	2024 (unaudited) RMB' million	2023 (unaudited) RMB' million
Revenue	2,264.6	1,833.4
Revenue from principal business	2,263.6	1,833.4
(i) General Power Supply Business	1,929.8	1,509.6
(ii) Incremental power transmission and distribution business	152.6	163.9
(iii) EECS business	182.2	159.9
Gross (loss)/profit	298.5	240.7
Administrative expenses	109.4	94.9
Finance costs	6.6	2.4
Other income	4.6	4.2
Credit impairment losses	(2.2)	8.8
Asset impairment losses	1.5	0.2
Operating profit	170.5	144.9
Profit before income tax	170.9	157.3
Net profit for the year	137.8	129.1

The Group recorded a revenue of approximately RMB2,264.6 million for the six months ended 30 June 2024, representing an increase of approximately 23.5% from approximately RMB1,833.4 million for the six months ended 30 June 2023, primarily due to an increase in the scale of general power supply business and EECS business.

The operating profit of the Group increased from approximately RMB144.9 million for the six months ended 30 June 2023 to approximately RMB170.5 million for the six months ended 30 June 2024, which was mainly due to the increase in the gross profit of approximately RMB57.8 million during the same period, and partially offset by the increase in administrative expenses from approximately RMB94.9 million for the six months ended 30 June 2023 to approximately RMB109.4 million for the six months ended 30 June 2024.

The net profit for the year of the Group increased from approximately RMB129.1 million to approximately 137.8 million from the six months ended 30 June 2023 to the six months ended 30 June 2024.

Table 4: Financial position of the Group as at 30 June 2023 and 2024

	As at 30 June	
	2024	2023
	(unaudited)	(unaudited)
	RMB' million	RMB' million
Current assets	1,725.6	1,563.0
Non-current assets	4,793.2	4,761.8
Total assets	6,518.7	6,324.8
Current liabilities	1,999.5	1,907.0
Non-current liabilities	1,116.3	1,014.0
Total liabilities	3,115.7	2,921.0
Total equity	3,403.0	3,403.8
Total equity attributable to Shareholders	3,354.5	3,355.3

The Group's total assets increased from approximately RMB6,324.8 million as of 30 June 2023 to approximately RMB6,518.7 million as of 30 June 2024, representing an increase of approximately 3.1%, mainly resulting from the increase in current assets from approximately RMB1,563.0 million as of 30 June 2023 to approximately RMB1,725.6 million as of 30 June 2024.

The Group's total liabilities increased from approximately RMB2,921.0 million as of 30 June 2023 to approximately RMB3,115.7 million as of 30 June 2024, representing an increase of approximately 6.7%, which was primarily due to (i) the increase in the current liabilities from approximately RMB1,907.0 million as of 30 June 2023 to approximately RMB1,999.5 million as of 30 June 2024; and (ii) the increase in the non-current liabilities from approximately RMB1,014.0 million as of 30 June 2023 to approximately RMB1,116.3 million as of 30 June 2024.

The Group's total equity remained stable from approximately RMB3,403.8 million as of 30 June 2023 to approximately RMB3,403.0 million as of 30 June 2024.

2. Information of Yibin Zhangwo and Shuifu Hongli

Yibin Zhangwo is a limited liability company established in the PRC which was held as to approximately 66.67% by Jinding Group and 33.33% by Shenzhen Aizhong Capital Management Co., Ltd* (深圳愛眾資本管理有限公司) as at the Latest Practicable Date. As at the Latest Practicable Date, Jinding Group was held as to approximately 69.39% by Hydropower Group and approximately 30.61% by Energy Investment Group, whereas Shenzhen Aizhong Capital Management Co., Ltd. was the wholly-owned subsidiary of Sichuan Guangan AAA Public Co., Ltd.* (四川廣安愛眾股份有限公司) (a joint stock company established in the PRC and the shares of which were listed on the Shanghai Stock Exchange (Stock Code: 600979)). Yinbin Zhangwo primarily engaged in hydropower generation.

Shuifu Hongli is a limited liability company established in the PRC which was held as to approximately 66.67% by Jinding Group and 33.33% by Shenzhen Aizhong Capital Management Co., Ltd. as at the Latest Practicable Date. For the background of Jinding Group and Shenzhen Aizhong Capital Management Co., Ltd., please refer to the above.

Hydropower Group was owned as to approximately 77.75% by Energy Investment Group, and owned indirectly as to 9.16% by China Construction Bank Corporation* (中國建設銀行股份有限公司) (a bank with state-owned background in the PRC dually listed on the Stock Exchange (stock code: 00939) and the Shanghai Stock Exchange (stock code: 601939)), approximately 6.55% by Agricultural Bank of China Limited* (中國農業銀行股份有限公司) (a bank with state-owned background in the PRC dually listed on the Stock Exchange (stock code: 01288) and the Shanghai Stock Exchange (stock code: 601288)), and approximately 6.55% by Bank of China Limited* (中國銀行股份有限公司) (a bank with state-owned background in the PRC dually listed on the Stock Exchange (stock code: 03988) and the Shanghai Stock Exchange (stock code: 601988)) as at the Latest Practicable Date. As at the Latest Practicable Date, Energy Investment Group was wholly-owned by Sichuan Development Co., which was in turn owned as to 90% by the State-owned Assets Supervision and Administration Commission of the Sichuan Provincial Government* (四川省政府國有資產監督管理委員會) and as to 10% by the Sichuan Provincial Department of Finance* (四川省財政廳), respectively.

3. Electricity Purchase Framework Agreements

Save for (i) the parties to the Electricity Purchase Agreements, (ii) the unit price of electricity to be paid by the Group under each of the Electricity Purchase Framework Agreements, (iii) the maximum volume of electricity to be purchased under each of the Electricity Purchase Framework Agreements, and (iv) the annual caps for the transactions contemplated under each of the Electricity Purchase Framework Agreements, the principal terms of the Electricity Purchase Framework Agreements are substantially the same and are summarised as follows:

Date:	16 May 2024 (after trading hours)
Parties:	<i>Yibin Zhangwo Electricity Purchase Framework Agreement</i> (1) the Company (as purchaser) (2) Yibin Zhangwo (as supplier) <i>Shuifu Hongli Electricity Purchase Framework Agreement</i> (1) the Company (as purchaser) (2) Shuifu Hongli (as supplier)
Subject matter:	Pursuant to the Electricity Purchase Framework Agreements, Yibin Zangwo/Shuifu Hongli shall supply electricity to the Company and its subsidiaries
Term:	From the effective date of the agreement to 31 December 2026
Conditions precedent:	The Electricity Purchase Framework Agreement shall become effective subject to the satisfaction of the following conditions precedent: (i) the legal representatives or authorized representatives of both parties having affixed their signatures and official seals; and (ii) the Electricity Purchase Framework Agreement and the transactions contemplated thereunder being approved in a general meeting duly convened by the Company in accordance with the Listing Rules.
Subsidiary agreement:	Pursuant to the terms of the relevant Electricity Purchase Framework Agreement, the parties to the agreement shall further agree on, to the extent applicable, the unit price of electricity, the policy of measurement of volume of electricity supplied, and terms of settlement by entering into separate specific subsidiary agreements within the ambit of the relevant Electricity Purchase Framework Agreement.

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Pricing policy: The unit price of electricity payable under the respective Electricity Purchase Framework Agreements shall be as follows:

	Unit price of electricity (tax exclusive)	Unit price of electricity (tax inclusive) (Note)
Yibin Zhangwo Electricity Purchase Framework Agreement	RMB0.2549 per kWh	RMB0.288 per kWh
Shuifu Hongli Electricity Purchase Framework Agreement	RMB0.31068 per kWh	RMB0.32 per kWh

Note: The unit price of electricity (tax inclusive) is calculated based on the rate of value added tax according to the PRC government policy.

The respective unit price of electricity payable under each of the Electricity Purchase Framework Agreements is subject to the adjustment under Notice of the Sichuan Development and Reform Commission on Adjusting the Relevant Issues Concerning Electricity Price Policy for the Water-sufficient and Water-deficit Seasons and Peak and Off-peak Hours of the Power Grid in Sichuan Province*《四川省發展改革委關於調整四川電網豐枯峰穀電價政策有關事項的通知》. The total electricity fee payable under the respective Electricity Purchase Framework Agreements shall be the relevant unit price of electricity multiplied by the actual volume of on-grid electricity supplied to the Group.

The respective unit price of electricity payable under the Electricity Purchase Framework Agreements set out above was determined after arm's length negotiation between the Company and Yibin Zhangwo or Shuifu Hongli (where applicable), with reference to (i) the historical unit price paid by the Group for the electricity purchased from the Zhangwo Power Station and Dayukong Power Station; (ii) the unit price of electricity charged by other Independent Third Parties; and (iii) the respective average unit price of electricity in 2023 charged by (a) State Grid Corporation of China (國家電網有限公司), being approximately RMB0.3606 per kWh (tax exclusive), and (b) China Southern Power Grid Company Limited (中國南方電網有限責任公司), being approximately RMB0.3875 per kWh (tax exclusive).

Payment Term: The electricity fee payable by the Group under the Electricity Purchase Framework Agreements shall be settled on a monthly basis.

(a) *Reasons and benefits for entering into the Electricity Purchase Framework Agreements*

As stated in the “Letter from the Board”, the Group has formed a long-term relationship in purchasing electricity from the Zhangwo Power Station and Dayukong Power Station since October 2017 and February 2013, respectively, and there is cogent evidence that over the years both stations had been providing stable electricity supply to the Group. Moreover, the unit prices of electricity charged by Yibin Zhangwo and Shuifu Hongli were lower than the average unit price of electricity in 2023 charged by State Grid Corporation of China (國家電網有限公司) (“State Grid”) and China Southern Power Grid Company Limited (中國南方電網有限責任公司) (“China Southern”).

We have reviewed the average unit price of electricity in 2023 offered by State Grid and China Southern, and noted that both the unit price of electricity of RMB0.2549 per kWh (tax exclusive) and the unit price of electricity of RMB0.31068 per kWh (tax exclusive) offered by Yibin Zhangwo and Shuifu Hongli respectively for the Electricity Purchase Framework Agreements are lower than that charged by either State Grid or China Southern for the same regions during the year 2023.

We understand that the Company is of the view that unit prices of the electricity as offered by State Grid or China Southern was not expected to have material fluctuation to a much lower price level in the next three years, given that the average unit prices as offered by State Grid and China Southern for the past two years remained stable and the Company is not aware of any changing circumstances as of the Latest Practicable Date which may bring material changes to the unit prices as offered by State Grid and China Southern, so it would be beneficial to continue to purchase electricity from the Zhangwo Power Station and Dayukong Power Station through Yibin Zhangwo and Shuifu Hongli by entering into the Electricity Purchase Framework Agreements, as it would enable to the Group to continue to enjoy a favourable and competitive electricity price which will be conducive in controlling the operating costs of the Group, as well as consolidating and enhancing the Group’s power supply capability in the relevant regions, particularly during the peak demand period of electricity.

We are of the view that though the latest available unit prices as charged by State Grid and China Southern for the same region during the year 2023 is less favourable to the Group than those as offered by Yibin Zhangwo and Shuifu Hongli under the Electricity Purchase Framework Agreements, it is unforeseeable whether the unit prices as stipulated under the Electricity Purchase Framework Agreements will keep being lower than the unit prices as offered by either State Grid or China Southern at the time when the Company is going to purchase electricity from other parties during the three years ending 31 December 2026.

As confirmed by the Company, the Company is well noted that to act on the interests of the Company and the Shareholders as a whole, whenever the Company is going to purchase electricity under the Electricity Purchase Framework Agreement, it should seek the quotation from no less than two other independent third parties to compare the unit prices as offered by them and those as stipulated under the Electricity Purchase Framework Agreement. Once any of the unit prices as offered by the independent third parties is lower than the unit prices as stipulated under the Electricity Purchase Framework Agreements, the Company shall weigh different factors to assess the interests of the Company and the Shareholders as a whole before making the decision to purchase from which party.

Having considered (i) the electricity purchase under the Electricity Purchase Framework Agreements is conducted in the ordinary and usual course of business of the Group; (ii) the business nature of the Group required significant amount of electricity; (iii) as informed by the Company, the supply of electricity from Yibin Zhangwo and Shuifu Hongli were stable even during the peak demand period since October 2017 and February 2013, respectively; and (iv) the unit price as offered by Yibin Zhangwo and Shuifu Hongli are not less favourable to the Group than that charged by either State Grid and China Southern for the similar region for year 2023, which is projected not to have material fluctuation to a much lower price level in the next three years for the reasons abovementioned, we are of the view and concur with Management's view that entering into Electricity Purchase Framework Agreements is in the interests of the Group and Shareholders as a whole.

(b) Our view on the terms of the Electricity Purchase Framework Agreement

We have reviewed the executed version of the Electricity Purchase Framework Agreements and noted that both the pricing policy as well as the maximum volume to be purchased from Yibin Zhnagwo and Shuifu Hongli are stipulated under the Electricity Purchase Framework Agreement. It was observed that the unit prices will be subject to the adjustment under Notice of the Sichuan Development and Reform Commission on Adjusting the Relevant Issues Concerning Electricity Price Policy for the Water-sufficient and Water-deficit Seasons and Peak and Off-peak Hours of the Power Grid in Sichuan Province* (《四川省發展改革委關於調整四川電網豐枯峰穀電價政策有關事項的通知》), which we considered it is fair and reasonable to take the adjustment pursuant to the change of relevant government policy.

In addition, the term of the Electricity Purchase Framework Agreements were both over two years and not over than three years, which could not only help the Company to save time in frequent contract negotiation but also enjoy the relevant stable electricity supply at the competent unit price level as offered by Yibin Zhnagwo and Shuifu Hongli respectively in a relative long-term period. Moreover, such duration enables the Company to retain flexibility for further negotiating the clauses of future electricity purchase agreements if in need upon the expiry of the Electricity Purchase Framework Agreements.

We also observed that the clauses of liability of breaching contract were provided in the Electricity Purchase Framework Agreements, which were on normal commercial terms.

Having considered what has been analysed regarding the terms of the Electricity Purchase Framework Agreements, we are of the view that the entering into the relevant framework agreements were on normal commercial terms, and are in the ordinary and usual course of business of the Group, and in the interests of the Group and the Shareholders.

(c) *Electricity Purchase Annual Caps*

The following table sets out the proposed Electricity Purchase Annual Caps:

Table 5: Proposed Electricity Purchase Annual Caps

	For the year ending 31 December		
	2024 (RMB'000)	2025 (RMB'000)	2026 (RMB'000)
Yibin Zhangwo Electricity Purchase Framework Agreement	93,310	100,220	96,770
Shuifu Hongli Electricity Purchase Framework Agreement	<u>35,520</u>	<u>37,440</u>	<u>36,480</u>
Total	<u><u>128,830</u></u>	<u><u>137,660</u></u>	<u><u>133,250</u></u>

We have reviewed the calculation workings of the proposed annual caps of the Electricity Purchase Framework Agreements and observed that such proposed annual caps were calculated based on the relevant unit prices offered by the respectively power stations multiplied by the maximum volume of electricity to be purchased by the Group for the three years ending 31 December 2026 as stipulated under the Electricity Purchase Framework Agreements.

Fairness and reasonableness of the annual caps

Maximum volume of electricity to be purchased

We have discussed with the Management and noted that the estimated maximum volume of electricity to be purchased by the Group under the Electricity Purchase Framework Agreements for the three years ending 31 December 2026 was determined with reference to the historical volume of electricity purchased by the Group from each of the Zhangwo Power Station and the Dayukong Power Station in the past five years, together with the designed annual utilisation hours of Zhangwo Power Station and Dayukong Power Station, respectively.

With reference to the “Letter from the Board”, set out below are the historical purchased volume of electricity purchased by the Group during the three years ended 31 December 2023 under the historical electricity purchase agreements regarding the electricity purchase from Zhangwo Power Station and Dayukong Power Station respectively.

Table 6: Historical figures of electricity purchased from Zhangwo Power Station and Dayukong Power Station in comparison with the maximum volume of electricity to be purchased by the Group

	For the year ended 31 December			For the four months ended	For the year ending 31 December		
	2021	2022	2023	30 April	2024	2025	2026
	('000 kWh)	('000 kWh)	('000 kWh)	('000 kWh)	('000 kWh)	('000 kWh)	('000 kWh)
Zhangwo Power Station	258,412.4	340,977.7	254,694.0	50,831.9	324,000	348,000	336,000
Dayukong Power Station	105,634.7	104,720.9	93,383.4	20,012.5	111,000	117,000	114,000
Total	<u>364,047.10</u>	<u>445,698.60</u>	<u>348,077.4</u>	<u>70,844.4</u>	<u>435,000</u>	<u>465,000</u>	<u>450,000</u>

We have requested the relevant consumption of electricity record from the Company regarding the purchase volume of the electricity for the past five years from 1 January 2019 to 31 December 2023, which listed the relevant purchased volume of electricity from Zhangwo Power Station and Dayukong Power Station respectively by the Company for each year and noted that there was no material difference between the historical transaction volume for the three years ended 31 December 2023 and the proposed maximum purchased volume for the three years ending 31 December 2026, which demonstrated the reasonableness of the proposed maximum purchased volume of electricity for calculating the annual caps.

We have reviewed the projected volume of electricity to be purchased by the Group from Zhangwo Power Station and the Dayukong Power Station respectively for three years ending 31 December 2026 and we were informed by the Company that their operation department projected the volume of electricity to be purchased by month taking into account the seasonality since the volume of electricity to be purchased will differ among high-water period, normal-water period and low-water period.

It is observed that the volume of electricity purchased by the Group from Zhangwo Power Station arrived the maximum volume in 2022 during the three years ended 31 December 2023; while the volume of electricity purchased by the Group from Dayukong Power Station were on a declining trend. We have reviewed the maximum estimated hours projected by the Company and understood that for the projected volume of each power station, the Company has considered (i) the higher value of its highest annual utilisation hours in the past five years and its designed annual utilisation hours; and (ii) the rated output capacity of electricity generation of such corresponding power station before arriving the estimated volume of electricity.

Specifically, if the highest annual utilisation hours in the past five years is higher than the designed annual utilisation hours, the Company will use such highest annual utilisation hours in the past five years to multiply by the rated output capacity of electricity generation to arrive the maximum volume to be purchased. If, the highest annual utilisation hours is lower than the designed annual utilisation hours, the Company will use the average amount of the highest annual utilisation hours in the past five years and the designed annual utilisation hours and then multiply by the rated output capacity of electricity generation of the corresponding power station.

We considered for the Zhangwo Power Station, it is fair and reasonable to adopt the highest annual utilisation hours in the past five years as the estimated maximum volume of electricity for the three years ending 31 December 2026 since (i) the highest volume purchased by the Group in the past five years has outweighed the designed annual utilisation hours of Zhangwo Power Station; and (ii) the Company is not aware of any material changes which may change the certainty and consistency of the volume of electricity that the Group expects to purchase from the Zhangwo Power Station for the three years ending 31 December 2026.

It is observed that for the Dayukong Power Station, the Company has adopted the average of highest annual utilisation hours in the past five years and the designed annual utilisation hours (i.e. approximately 3,900 hours) to multiple by the rated output capacity of electricity generation to arrive the estimated maximum volume of electricity to be purchased by the Group. Such average amount was 321 hours higher than the highest annual utilisation hours in the past five years of the Dayukong Power Station as purchased by the Group. We considered that such difference of 321 hours provides flexibility to the Group in the event that it has the demand to purchase more electricity when its own generated electricity is not sufficient, taking into account of the uncertain duration of high-water periods which heavily relies on the climate.

We considered such basis to arrive the maximum volume of electricity to be purchased for each of the three years ending 31 December 2026 is fair and reasonable.

Unit prices of electricity as determined

We understood from the “Letter from the Board” that the unit prices of electricity payable by the Group under the Electricity Purchase Framework Agreements, which were determined after arm’s length negotiation between the Group and each of Yibin Zhangwo and Shuifu Hongli with reference to (i) the historical unit price paid by the Group for the electricity supplied by the Zhangwo Power Station and the Dayukong Power Station; (ii) the unit price of electricity charged by other Independent Third Parties; and (iii) the respective average unit price of electricity in 2023 charged by (a) State Grid and (b) China Southern.

We have obtained and reviewed the materials from the Company regarding the (i) historical unit price paid by the Group for the electricity supplied by the Zhangwo Power Station and the Dayukong Power Station during the past five years; (ii) the unit price of electricity charged by three other Independent Third Parties during the period for year 2023 ranged from RMB0.28 per kWh (tax inclusive) to RMB0.31 per kWh (tax inclusive); and (iii) the respective average unit price of electricity in 2023 offered by State Grid and China Southern. We observed that (i) the unit price offered by Zhangwo Power Station of RMB0.288 per kWh (tax inclusive) falls within the range of those unit prices offered to the Company by Independent Third Parties, which is fair and reasonable; and (ii) the unit price of electricity offered by Dayukong Power Station of RMB0.32 per kWh (tax inclusive) is slightly higher (i.e. RMB0.01 per kWh) than the highest value in the range of the unit prices as charged by the Independent Third Parties.

Taking into the reasons abovementioned, we considered the unit prices as offered by Zhangwo Power Station is fair and reasonable. Though the unit price offered by Dayukong Power Station is slightly higher than the highest value in the range of the unit prices offered by three Independent Third Parties (i.e. difference of RMB0.01 kWh), we considered the reasons and benefits for entering into the Electricity Purchase Agreements as discussed under the sub-paragraph (a) headed “Reasons and benefits for entering into the Electricity Purchase Framework Agreement” above outweigh such trivial difference.

The buffer as considered

We have discussed with the Management and was informed that the unit price of electricity will be lowered approximately 24% during the high-water period and be increased approximately 24.5% during the low-water period. Taking into account that the volume to be consumed by the Company during the high-water period would be higher than that of the low-water period, the averaged unit prices to be charged by the power stations should be lower than the unit prices as offered during the normal-water period, which are the unit price level as stipulated under the Electricity Purchase Framework Agreements. We considered it is reasonable to consider a buffer for the propose annual caps to cater for the operating need from time to time in determining the proposed annual caps of the fees payable to the Group under the Electricity Purchase Framework Agreement so that the Company could retain the flexibility in the event that it demanded a slightly higher volume that expected.

In light of above, we have assessed the reasonableness of the annual caps from each factor the Company has considered, including but not limited to (i) the maximum volume of electricity to be purchased; (ii) unit prices of electricity as determined; and (iii) the buffer as considered, and are of the view the annual caps which was proposed by the Company for the three years ending 31 December 2026 are fair and reasonable.

4. Internal Control Measures

As stated in the “Letter from the Board”, the Company has implemented enhanced internal control measures to prevent late discovery of connected relationships in the future transactions, in particular, update the list of connected persons and conduct shareholding search on the business partners on a quarterly basis instead of annual basis. We considered such improvement on the internal control measures demonstrated the Company’s high level of intention on the compliance with the Listing Rules and its timely rectification upon reviewing its existing internal control policy.

Also, in order to ensure that the terms under the Electricity Purchase Framework Agreements for the continuing connected transactions contemplated thereunder are fair and reasonable and the connected transactions are carried out under normal commercial terms, the Company have adopted the following internal control procedures:

- (i) the operation management department of the Company will monitor the transactions under the Electricity Purchase Framework Agreements on a regular basis, and assess whether the annual caps are expected to be exceeded based on the volume of electricity already purchased and the amount of electricity fee already incurred by the Group. Where necessary, before the annual caps are exceeded, the operation management department of the Company will elevate such issue to the Board with proposed revised annual caps and such other relevant information so that the Board will be in a position to consider and, where applicable, comply with applicable Listing Rules in connection with such revised annual caps;
- (ii) prior to entering into of any specific subsidiary agreements, the personnel of relevant departments (including but not limited to the audit department, financial assets department and operation management department) of the Company as well as the legal counsels engaged by the Company from time to time will review and assess the specific terms and conditions of the transactions to ensure their consistency with the Electricity Purchase Framework Agreements. The operation management department will also compare the unit price of electricity offered under such specific subsidiary agreements with those offered by Independent Third Parties (including State Grid Corporation of China (國家電網有限公司) and China Southern Power Grid Company Limited (中國南方電網有限責任公司)) and ensure that the unit price of electricity offered under the specific subsidiary agreements are no less favorable than those to be offered by the Independent Third Parties; and
- (iii) Independent non-executive Directors and auditors of the Company will conduct annual review of the transactions under the Electricity Purchase Framework Agreements (including the unit rates of electricity charged in respect of the transactions) and provide annual confirmations in accordance with the Listing Rules that the transactions are conducted in accordance with the terms of the agreements and the Group's pricing policy measures, and to confirm if the price and terms offered are fair and reasonable and comparable to those offered by independent third parties.

We considered that there are adequate and enforceable internal control measures to ensure the continuing connected transactions contemplated under the Electricity Purchase Framework Agreement in compliance with applicable rules and laws; given the Company has leveraged on both the internal resources and external resources to safeguard the continuing connected transactions are in compliance with the applicable rules by (i) designating different departments of the Group which are involved in the continuing connected transactions as well as the Directors to monitor the status of the relevant continuing connected transaction; and (ii) arranging and engaging the independent non-executive Directors and the auditors of the Company to review the relevant transactions and ensure they are in compliance with the Listing Rules.

II. 2023 RURAL POWER GRID CONTRACTS

1. Information of Parties Involved

Xuzhou Electricity

Xuzhou Electricity is a limited liability company established in the PRC and a wholly-owned subsidiary of the Company engaged in the development, production and sale of electricity.

Gao County Electricity

Gao County Electricity is a limited liability company established in the PRC and a wholly-owned subsidiary of the Company engaged in power generation and supply and trading of electrical equipment.

Gong County Electricity

Gong County Electricity is a limited liability company established in the PRC and a wholly-owned subsidiary of the Company and engaged in power generation and supply.

Junlian Electricity

Junlian Electricity a limited liability company established in the PRC and a wholly-owned subsidiary of the Company and engaged in power supply service and the purchase and sale of power supply equipment.

Pingshan Electricity

Pingshan Electricity is a limited liability company established in the PRC and a wholly owned subsidiary of the Company engaged in power generation and supply in Pingshan County, Yibin City, Sichuan Province.

Xingwen Electricity

Xingwen Electricity is a limited liability company established in the PRC and a wholly-owned subsidiary of the Company and engaged in power supply and production and sale of electrical equipment.

Sichuan Energy Investment Development Construction

Sichuan Energy Investment Development Construction Co., Ltd.* (四川能投發展建設有限公司) (formerly known as Sichuan Energy Yibin Electricity Engineering Co. Ltd.* (四川能投宜賓電力工程建設有限公司)) is a limited liability company established in the PRC and a wholly-owned subsidiary of the Company which engaged in inspection and maintenance of transformer substations, hydropower stations and electricity transmission lines.

Sichuan Energy Construction

Sichuan Energy Construction is a limited liability company established in the PRC and is held as to approximately 93.52% by Energy Investment Group, 3.80% by Hydropower Group and 2.68% by Sichuan Chemical Works Group Ltd.* (川化集團有限責任公司). Sichuan Energy Construction is engaged in project planning, project investment, design and consulting, construction, operation in engineering construction.

Sichuan Energy Consolidated Energy

Sichuan Energy Consolidated Energy is a limited liability company established in the PRC, a wholly-owned subsidiary of Hydropower Group. Sichuan Energy Consolidated Energy is principally engaged in power transmission and supply, installation, maintenance and testing of power receiving facilities, engineering survey, design and construction and engineering project costs consultation services.

Materials Industry Group

Material Industry Group is a limited liability company established in the PRC on 16 April 2013 and a wholly-owned subsidiary of Energy Investment Group and engaged in sale of metal materials and products, sale of construction materials, sale of cement products, sale of coal and related products, and sale of electrical equipment.

Sun Technology

Sun Technology is a limited liability company established in the PRC and is owned as to approximately 67% by Hydropower Group, approximately 25% by Sichuan LenSyn Technology Co., Ltd.* (四川能信科技股份有限公司) and approximately 8% by Mr. Li Guangying (李光映). It is primarily engaged in the development and sale of computer software and hardware. Sichuan LenSyn Technology Co., Ltd. is a company with issued shares quoted on the National Equities Exchange and Quotations (stock code: 837522).

Sichuan Yilian

Sichuan Yilian is a limited liability company established in the PRC and is indirectly owned as to approximately 33.52% by Energy Investment Group, directly owned as to approximately 66.48% by four individual investors namely Chen Wei (譚 維), Yan Jingsong (閻 勁 松), Li Zhixiang (李 志 翔) and Chen Zhiqi (陳 志 祺), all of whom are independent third parties.

Other 10kV and Below Project Implementation Units

For the details of Other 10kV and Below Project Implementation Units, please refer to the disclosure under the “Letter from the Board”

Other Automation Engineering Project Implementation Units

For the details of Other Automation Engineering Project Implementation Units, please refer to the disclosure under the “Letter from the Board”

Other Construction Supervision Implementation Units

For the details of Other Construction Supervision Implementation Units, please refer to the disclosure under the “Letter from the Board”

2. 2023 Rural Power Grid Contracts

The material terms of the 2023 Rural Power Grid Contracts are set out below respectively:

(i) EPC Contract for 10kV and Below Project

Date:	3 July 2024 (after trading hours)
Parties:	(1) Hydropower Group (as principal); (2) Sichuan Energy Construction (as contractor); (3) Sichuan Energy Consolidated Energy (as contractor); (4) Sichuan Energy Investment Development Construction (as contractor); (5) 10kV and Below Project Implementation Units; and (6) Other 10kV and Below Project Implementation Units
Project:	<p>The 10kV and Below Project, comprising, among others, the construction and modification of 10kV circuit line, distribution transformers, low voltage lines and meters.</p> <p>The EPC Contract for 10kV and Below Project covers two major projects, being the 10kV and Below Project under the 2023 Rural Power Grid Consolidation and Improvement Project and the 10kV and Below Project under the New Rural Power Grid Consolidation and Improvement Project.</p> <p>The Group will only take part in part of the 10kV and Below Project under the 2023 Rural Power Grid Consolidation and Improvement Project.</p>
Scope of service:	Survey and design, construction installation and engineering implementation, equipment testing, equipment installation and commissioning and trial operation, procurement of certain auxiliary materials (including installation)
Construction period:	275 calendar days

Conditions precedent: The contract shall become effective subject to the satisfaction of the following conditions precedent:

1. the legal representative or authorised agent of each party to the contract having executed the contract or affixed the seal thereto;
2. Hydropower Group having received the performance guarantee from the approved contractors;
3. the rural power grid investment contract among Hydropower Group, the 10kV and Below Project Implementation Units and Other 10kV and Below Project Implementation Units having been executed and become effective (in the event certain implementation units did not enter into any effective rural power grid investment contract, the project involving such implementation unit shall not be implemented, but it shall not affect the implementation of the other projects under the EPC Contract for 10kV and Below Project);
4. the self-financed funds (if any) of the 10kV and Below Project Implementation Units and Other 10kV and Below Project Implementation Units being available;
5. the Independent Shareholders having approved the contract and the transactions contemplated thereunder at the EGM in accordance with the Listing Rules; and
6. the Stock Exchange's approval in connection with the contract and the transactions contemplated thereunder having been obtained.

Defect liability period: 24 months commencing from the issuance of project delivery certificate

Total estimated contract price payable under the EPC Contract for 10kV and Below Project:

RMB967,673,620 ^{Note} (tax inclusive) which comprises (i) the survey and design fee of RMB60,234,917 (tax inclusive); (ii) the construction fee of RMB903,927,449 (tax inclusive); and (iii) the auxiliary material fee of RMB3,511,254 (tax inclusive), subject to completion and settlement audit report issued by an audit institution engaged by Hydropower Group.

Out of the total estimated contract price of RMB967,673,620 ^{Note} (tax inclusive), it is envisaged that (i) the 10kV and Below Project Implementation Units shall share and be responsible for the payment of RMB207,875,798 (tax inclusive); and (ii) Sichuan Energy Investment Development Construction as one of the contractors, will receive RMB98,624,009.00 (tax inclusive) for the services to be rendered.

Based on the Company's past experience and estimation, the final settlement amount is expected to have a fluctuation of no more than 5% from the estimated contract price.

Note: The total contract sum of RMB967,673,620 (tax inclusive) represent the aggregate of the contract sum of the 10kV and Below Project under the 2023 Rural Power Grid Consolidation and Improvement Project (i.e. RMB876,090,408.00 (tax inclusive)) and the contract sum of the 10kV and Below Project under the New Rural Power Grid Consolidation and Improvement Project (i.e. RMB91,583,212.00 (tax inclusive)) under the EPC Contract for 10kV and Below Project.

The Group will only take part in part of the 10kV and Below Project under the 2023 Rural Power Grid Consolidation and Improvement Project in the EPC Contract for 10kV and Below Project.

Pricing:

The estimated contract price was the successful tender price offered by Sichuan Energy Construction, Sichuan Energy Consolidated Energy and Sichuan Energy Investment Development Construction in the public tender and was accepted by the bid evaluation committee (評標委員會) after thorough evaluation pursuant to the relevant rules and regulations of the PRC and the tender documents.

The bid evaluation committee was formed in accordance with the requirements of the Management Measures on Bid Evaluation Expert and Bid Evaluation Expert Pool of Sichuan Province* (《四川省評標專家和綜合評標專家庫管理辦法》) (the “Management Measures”) and the Tendering and Bidding Law of the PRC* (《中華人民共和國招標投標法》). As confirmed by the Directors, the bid evaluation committee consisted of nine members, of which six bid evaluation experts were randomly selected from the Bid Evaluation Expert Database of Sichuan Province* (四川省評標專家庫) and three being representatives of Hydropower Group. To the best knowledge of the Directors, the said six randomly selected bid evaluation experts, being Independent Third Parties, are professionals with senior title or equivalent professional level in the PRC with at least 8 years of working experience in the fields of geotechnical engineering and electrical engineering pursuant to the requirements of the Management Measures, while the three representatives of Hydropower Group comprise two senior engineers and one senior accountant.

When selecting the successful bidder, the bid evaluation committee had considered a basket of factors including, among others, (i) from the business aspects, the bidders’ background, experience, credibility and the bidding price for the required services; and (ii) from the technical aspects, the construction timeliness, quality control and assurance and the qualification(s) possessed by the professional team of the bidder to be engaged.

The tender price offered was determined by Sichuan Energy Construction, Sichuan Energy Consolidated Energy and Sichuan Energy Investment Development Construction in accordance with the relevant laws and regulations and documents issued by the governmental authorities, including but not limited to Budget Quota for Power Construction Engineering (《電力建設工程概預算定額》) with reference to on-site inspection and information collected.

Payment terms:

The contract price shall be paid in the following manner:

(i) Advance payments

The advance payment shall be 15% of the total estimated contract price and payable within 14 days upon approval by the 10kV and Below Project Implementation Units and Other 10kV and Below Project Implementation Units of the application for advance payments.

The advance payment shall be credited into the progress payments (as detailed below) once the aggregate progress payments reached 30% of the total contract sum. At which point, 30% of the advance payments shall be credited into each subsequent progress payment until the aggregate amount of progress payments reached 85% of the total estimated contract sum (inclusive of the advance payments credited) and the entire advance payments are credited.

(ii) Progress payments

Survey and design fee

Up to 80% of the total survey and design fee (inclusive of advance payments) after confirmation of construction drawing design.

Up to 85% of the total survey and design fee after completion and acceptance of the project.

Up to 97% of the total survey and design after settlement and audit.

The remaining 3% of the total survey and design fee shall be retained as quality warranty and shall be paid after the expiry of defect liability period.

Construction fee

Up to 80% of the total construction fee based on 80% of the actual amount of the construction work completed each month.

Up to 85% of the total construction fee after completion and acceptance of the project.

Up to 97% of the total construction fee after settlement and audit.

The remaining 3% of the total construction fee shall be retained as quality warranty and shall be paid after the expiry of defect liability period.

Equipment and materials fee

Up to 85% of the total equipment and materials fee based on the actual amount of equipment and materials supplied.

Up to 95% of the total equipment and materials fee based on the actual amount of equipment and materials supplied after completion and acceptance.

Up to 97% of the total equipment and materials fee based on the actual amount of equipment and materials supplied after settlement and audit.

The remaining 3% of the total equipment and materials fee shall be retained as quality warranty.

(iii) Quality warranty

3% of the total estimated contract price shall be retained as quality warranty, which shall be paid (without interest) upon verification of completion of defect liability after the expiry of defect liability period.

Advance payment guarantee: The contractors shall provide an advance payment guarantee, either in the form of cash or a letter of guarantee, with an amount not less than the advance payment payable under the EPC Contract for 10kV and Below Project.

The advance payment guarantee shall be released once the advance payment is fully utilised.

Performance guarantee: The contractors shall provide performance guarantee in the amount equivalent to 10% of the total contract price to the principal by way of cash or a letter of guarantee.

The performance guarantee shall be returned to the contractors 3 months after the satisfactory completion inspection of the 10kV and Below Project and upon the approval by the principal of the application to return the performance guarantee to be submitted by the contractors.

(ii) Equipment and Materials Procurement Contract

Date: 3 July 2024 (after trading hours)

Parties: (1) Hydropower Group (as principal);
(2) Materials Industry Group (as contractor);
(3) 10kV and Below Project Implementation Units; and
(4) Other 10kV and Below Project Implementation Units

Project: The 10kV and Below Project

The Equipment and Materials Procurement Contract covers two major projects, being the equipment and materials procurement for the 10kV and Below Project under the 2023 Rural Power Grid Consolidation and Improvement Project and the equipment and materials procurement for the 10kV and Below Project under the New Rural Power Grid Consolidation and Improvement Project.

The Group will only take part in the equipment and materials procurement for part of the 10kV and Below Project under the 2023 Rural Power Grid Consolidation and Improvement Project.

- Scope of service: The procurement of equipment and material for the 10kV and Below Project
- Contract duration: The contractor shall supply the relevant equipment and materials in accordance with the progress of the project, starting from the actual date requested by the principal or the 10kV and Below Project Implementation Units and Other 10kV and Below Project Implementation Units
- Conditions precedent: The contract shall become effective subject to the satisfaction of the following conditions precedent:
1. the legal representative or authorised agent of each party to the contract having executed the contract or affixed the seal thereto;
 2. Hydropower Group having received the performance guarantee from the approved contractors;
 3. the rural power grid investment contract among Hydropower Group, the 10kV and Below Project Implementation Units and Other 10kV and Below Project Implementation Units having been executed and become effective (in the event certain implementation units did not enter into any effective rural power grid investment contract, the project involving such implementation unit shall not be implemented, but it shall not affect the implementation of the other projects under the EPC Contract for 10kV and Below Project);
 4. the self-financed funds (if any) of the 10kV and Below Project Implementation Units and Other 10kV and Below Project Implementation Units being available;
 5. the Independent Shareholders having approved the contract and the transactions contemplated thereunder at the EGM in accordance with the Listing Rules; and
 6. the Stock Exchange's approval in connection with the contract and the transactions contemplated thereunder having been

Quality warranty period: 12 months (commencing from the commissioning of the project) or 18 months (commencing from the delivery of products), whichever is the later, unless otherwise specified under national and/or industrial standard and regulations which has a longer warranty period than the aforesaid.

Total estimated contract price payable under the Equipment and Materials Procurement Contract: RMB972,316,337.92 ^{Note} (tax inclusive) (out of which the 10kV and Below Project Implementation Unit shall share and be responsible for the payment of RMB208,728,821.67 (tax inclusive)), subject to completion and settlement audit report issued by an audit institution engaged by Hydropower Group.

Based on the Company's past experience and estimation, the final settlement amount is expected to have a fluctuation of no more than 5% from the estimated contract price.

Note: The total contract sum of RMB972,316,337.92 (tax inclusive) represent the aggregate of the contract sum of the equipment and materials procurement for the 10kV and Below Project under the 2023 Rural Power Grid Consolidation and Improvement Project (i.e. RMB882,682,245.37 (tax inclusive)) and the contract sum of the equipment and materials procurement for the 10kV and Below Project under the New Rural Power Grid Consolidation and Improvement Project (i.e. RMB89,634,092.55 (tax inclusive)) under the Equipment and Materials Procurement Contract.

The Group will only take part in the equipment and materials procurement for part of the 10kV and Below Project under the 2023 Rural Power Grid Consolidation and Improvement Project in the Equipment and Materials Procurement Contract.

Pricing: The estimated contract price was the successful tender price offered by Materials Industry Group in the public tender and was accepted by the bid evaluation committee (評標委員會) after thorough evaluation pursuant to the relevant rules and regulations of the PRC and the tender documents.

The bid evaluation committee was formed in accordance with the requirements of the Management Measures on Bid Evaluation Expert and Bid Evaluation Expert Pool of Sichuan Province* (《四川省評標專家和綜合評標專家庫管理辦法》) (the “Management Measures”) and the Tendering and Bidding Law of the PRC* (《中華人民共和國招標投標法》). As confirmed by the Directors, the bid evaluation committee consisted of nine members, of which six bid evaluation experts were randomly selected from the Bid Evaluation Expert Database of Sichuan Province* (四川省評標專家庫) and three being representatives of Hydropower Group. To the best knowledge of the Directors, the said six randomly selected bid evaluation experts, being Independent Third Parties, are professionals with senior title or equivalent professional level in the PRC with at least 8 years of working experience in the fields of geotechnical engineering and electrical engineering pursuant to the requirements of the Management Measures, while the three representatives of Hydropower Group comprise two senior engineers and one senior accountant.

When selecting the successful bidder, the evaluation panel had considered a basket of factors including, among others, (i) from the business aspects, the bidders’ background, experience, credibility and the bidding price for the required services; and (ii) from the technical aspects, the timeliness, quality and assurance of equipment and materials to be procured and delivered and the qualification(s) possessed by the professional team of the bidder to be engaged.

Payment terms:

The contract price shall be paid in the following manner:

- (i) 30% of the estimated contract price (tax inclusive) as advance payments within 14 days upon approval by the 10kV and Below Project Implementation Units and the Other 10kV and Below Project Implementation Units of the application for advance payments;
- (ii) 67% of the contract price within 7 working days after acceptance of the equipment and materials supplied and issuance of invoice; and
- (iii) the remaining 3% of the contract price shall be retained as quality warranty and payable (without interests) within 14 days after the expiry of the warranty period and if there is no event of default.

Advance payment guarantee: The contractor shall provide an advance payment guarantee, either in the form of cash or a letter of guarantee, with an amount not less than the advance payment payable under the Equipment and Materials Procurement Contract.

The advance payment guarantee shall be released once the advance payment is fully utilised.

Performance guarantee: The contractors shall provide performance guarantee in the amount equivalent to 10% of the total contract price to the principal by way of cash or a letter of guarantee.

The performance guarantee shall be returned to the contractors 6 months after the satisfactory completion inspection of the 10kV and Below Project and upon the approval by the principal of the application to return the performance guarantee to be submitted by the contractor.

(iii) EPC Contract for 35kV and Above Project

Date: 3 July 2024 (after trading hours)

Parties:

- (1) Hydropower Group (as principal);
- (2) Sichuan Energy Construction (as contractor);
- (3) Sichuan Energy Consolidated Energy (as contractor);
- (4) Sichuan Energy Investment Development Construction (as contractor);
- (5) 35kV and Above Project Implementation Units; and
- (6) Other 35kV and Above Project Implementation Units

Project: The 35kV and Above Project, comprising, among others, the construction and modification of 110kV substations, main transformers, 110kV circuit line, 35kV substations, main transformers and 35kV circuit line.

Scope of service: Survey and design of the project (preliminary design and construction drawing design stages), procurement of equipment and materials, general contracting of construction works

Construction period: 275 calendar days

Conditions precedent:	<p>The contract shall become effective subject to the satisfaction of the following conditions precedent:</p> <ol style="list-style-type: none">1. the legal representative or authorised agent of each party to the contract having executed the contract or affixed the seal thereto;2. Hydropower Group having received the performance guarantee from the approved contractors;3. the rural power grid investment contract among Hydropower Group, the 35kV and Above Project Implementation Units and Other 35kV and Above Project Implementation Units having been executed and become effective (in the event certain implementation units did not enter into any effective rural power grid investment contract, the project involving such implementation unit shall not be implemented, but it shall not affect the implementation of the other projects under the EPC Contract for 35kV and Above Project);4. the self-financed funds (if any) of the 35kV and Above Project Implementation Units and Other 35kV and Above Project Implementation Units being available;5. the Independent Shareholders having approved the contract and the transactions contemplated thereunder at the EGM in accordance with the Listing Rules; and6. the Stock Exchange's approval in connection with the contract and the transactions contemplated thereunder having been obtained.
Defect liability period:	24 months commencing from the issuance of project delivery certificate
Total estimated contract price payable under the EPC Contract for 35kV and Above Project:	RMB718,304,068.00 (tax inclusive) which comprises (i) the survey and design fee of RMB25,580,365.00 (tax inclusive); (ii) the construction fee and other fee of RMB382,589,103.00 (tax inclusive); and (iii) the equipment procurement fee of RMB310,134,600.00 (tax inclusive), subject to completion and settlement audit report issued by an audit institution engaged by Hydropower Group.

Out of the total estimated contract price of RMB718,304,068.00 (tax inclusive), it is envisaged that (i) the 35kV and Above Project Implementation Units shall share and be responsible for the payment of RMB107,836,000 (tax inclusive); and (ii) Sichuan Energy Investment Development Construction as one of the contractors, will receive RMB103,906,990 (tax inclusive) for the services to be rendered.

Based on the Company's past experience and estimation, the final settlement amount is expected to have a fluctuation of no more than 5% from the estimated contract price.

Pricing:

The estimated contract price was the successful tender price offered by Sichuan Energy Construction, Sichuan Energy Consolidated Energy and Sichuan Energy Investment Development Construction in the public tender and was accepted by the bid evaluation committee (評標委員會) after thorough evaluation pursuant to the relevant rules and regulations of the PRC and the tender documents.

The bid evaluation committee was formed in accordance with the requirements of the Management Measures on Bid Evaluation Expert and Bid Evaluation Expert Pool of Sichuan Province* (《四川省評標專家和綜合評標專家庫管理辦法》) (the "Management Measures") and the Tendering and Bidding Law of the PRC* (《中華人民共和國招標投標法》). As confirmed by the Directors, the bid evaluation committee consisted of nine members, of which six bid evaluation experts were randomly selected from the Bid Evaluation Expert Database of Sichuan Province* (四川省評標專家庫) and three being representatives of Hydropower Group. To the best knowledge of the Directors, the said six randomly selected bid evaluation experts, being Independent Third Parties, are professionals with senior title or equivalent professional level in the PRC with at least 8 years of working experience in the fields of geotechnical engineering and electrical engineering pursuant to the requirements of the Management Measures, while the three representatives of Hydropower Group comprise two senior engineers and one senior accountant.

When selecting the successful bidder, the bid evaluation committee had considered a basket of factors including, among others, (i) from the business aspects, the bidders' background, experience, credibility and the bidding price for the required services; and (ii) from the technical aspects, the construction timeliness, quality control and assurance and the qualification(s) possessed by the professional team of the bidder to be engaged.

The tender price offered was determined by Sichuan Energy Construction, Sichuan Energy Consolidated Energy and Sichuan Energy Investment Development Construction in accordance with the relevant laws and regulations and documents issued by the governmental authorities, including but not limited to Budget Quota for Power Construction Engineering (《電力建設工程概預算定額》) with reference to on-site inspection and information collected.

Payment terms: The contract price shall be paid in the following manner:

(i) Advance payments

The advance payment shall be 15% of the total estimated contract price and payable within 14 days upon approval by the 35kV and Above Project Implementation Units and Other 35kV and Above Project Implementation Units of the application for advance payments.

The advance payment shall be credited into the progress payments (as detailed below) once the aggregate progress payments reached 30% of the total contract sum. At which point, 30% of the advance payments shall be credited into each subsequent progress payment until the aggregate amount of progress payments reached 80% of the total estimated contract sum (inclusive of the advance payments credited) and the entire advance payments are credited.

(ii) Progress payments

Survey and design fee

Up to 80% of the total survey and design fee (inclusive of advance payments) after confirmation of construction drawing design.

Up to 85% of the total survey and design fee after completion and acceptance of the project.

Up to 97% of the total survey and design after settlement and audit.

The remaining 3% of the total survey and design fee shall be retained as quality warranty and shall be paid after the expiry of defect liability period.

Other progress payments

Up to 80% of the contract price (after deducting the survey and design fee) based on 80% of the actual amount of the work completed each month.

Up to 85% of the total contract price (after deducting the survey and design fee) after completion and acceptance of the project.

Up to 97% of the total contract price after settlement and audit.

The remaining 3% of the total contract price shall be retained as quality warranty and shall be paid after the expiry of defect

(iii) Quality warranty

3% of the total estimated contract price shall be retained as quality warranty, which shall be paid (without interest) upon verification of completion of defect liability after the expiry of defect liability period.

Advance payment guarantee: The contractors shall provide an advance payment guarantee, either in the form of cash or a letter of guarantee, with an amount not less than the advance payment payable under the EPC Contract for 35kV and Above Project.

The advance payment guarantee shall be released once the advance payment is fully utilised.

Performance guarantee: The contractors shall provide performance guarantee in the amount equivalent to 10% of the total contract price to the principal by way of cash or a letter of guarantee.

The performance guarantee shall be returned to the contractors 3 months after the satisfactory completion inspection or delivery (where applicable) of the 35kV and Above Project and upon the approval by the principal of the application to return the performance guarantee to be submitted by the contractors.

(iv) EPC Contract for Automation Engineering Project

Date: 3 July 2024 (after trading hours)

Parties: (1) Hydropower Group (as principal);
(2) Sun Technology;
(3) Sichuan Energy Consolidated Energy;
(4) Automation Engineering Project Implementation Units; and
(5) Other Automation Engineering Project Implementation Units

Project: The Automation Engineering Project, comprising, among others, (i) the construction of the portion of various 35kV and above projects relating to communication and auxiliary control; (ii) the automation improvement engineering, including rural power grid dispatching automation engineering, transformers station operation, maintenance and recondition and main station system engineering, dispatching automation network security level protection engineering, distribution grid dispatching automation engineering, energy use safety engineering and rural power grid distribution energy automation system and supporting projects of Hydropower Group; and (iii) communication improvement project in Changning County, which includes the improvement of the rural power grid communication system within the county

- Scope of service: Design (preliminary design and construction drawing design stages), installation, commissioning and general contracting, and procurement of equipment and materials with respect to the Automation Engineering Project
- Construction period: 275 calendar days
- Conditions precedent: The contract shall become effective subject to the satisfaction of the following conditions precedent:
1. the legal representative or authorised agent of each party to the contract having executed the contract or affixed the seal thereto;
 2. Hydropower Group having received the performance guarantee from the approved contractors;
 3. the rural power grid investment contract among Hydropower Group, the Automation Engineering Project Implementation Units and Other Automation Engineering Project Implementation Units having been executed and become effective (in the event certain implementation units did not enter into any effective rural power grid investment contract, the project involving such implementation unit shall not be implemented, but it shall not affect the implementation of the other projects under the EPC Contract for Automation Engineering Project);
 4. the self-financed funds (if any) of the Automation Engineering Project Implementation Units and Other Automation Engineering Project Implementation Units being available;
 5. the Independent Shareholders having approved the contract and the transactions contemplated thereunder at the EGM in accordance with the Listing Rules; and
 6. the Stock Exchange's approval in connection with the contract and the transactions contemplated thereunder having been obtained.
- Defect liability period: 24 months commencing from the issuance of project delivery certificate

Total estimated contract price payable under the EPC Contract for Automation Engineering Project: RMB90,694,397.00 (tax inclusive) which comprises (i) the design fee of RMB3,175,063.00 (tax inclusive); (ii) the construction fee and other fee of RMB13,426,622.00 (tax inclusive); and (iii) the equipment procurement fee of RMB74,092,712.00 (tax inclusive), subject to completion and settlement audit report issued by an audit institution engaged by Hydropower Group.

Out of the total estimated contract price of RMB90,694,397.00 (tax inclusive), it is envisaged that the Automation Engineering Project Implementation Units shall share and be responsible for the payment of RMB9,863,897 (tax inclusive).

Based on the Company's past experience and estimation, the final settlement amount is expected to have a fluctuation of no more than 5% from the estimated contract price.

Pricing: The estimated contract price was the successful tender price offered by Sun Technology and Sichuan Energy Consolidated Energy in the public tender and was accepted by the bid evaluation committee (評標委員會) after thorough evaluation pursuant to the relevant rules and regulations of the PRC and the tender documents.

The bid evaluation committee was formed in accordance with the requirements of the Management Measures on Bid Evaluation Expert and Bid Evaluation Expert Pool of Sichuan Province* (《四川省評標專家和綜合評標專家庫管理辦法》) (the "Management Measures") and the Tendering and Bidding Law of the PRC* (《中華人民共和國招標投標法》). As confirmed by the Directors, the bid evaluation committee consisted of nine members, of which six bid evaluation experts were randomly selected from the Bid Evaluation Expert Database of Sichuan Province* (四川省評標專家庫) and three being representatives of Hydropower Group. To the best knowledge of the Directors, the said six randomly selected bid evaluation experts, being Independent Third Parties, are professionals with senior title or equivalent professional level in the PRC with at least 8 years of working experience in the fields of geotechnical engineering and electrical engineering pursuant to the requirements of the Management Measures, while the three representatives of Hydropower Group comprise two senior engineers and one senior accountant.

When selecting the successful bidder, the bid evaluation committee had considered a basket of factors including, among others, (i) from the business aspects, the bidders' background, experience, credibility and the bidding price for the required services; and (ii) from the technical aspects, the construction timeliness, quality control and assurance and the qualification(s) possessed by the professional team of the bidder to be engaged.

Payment terms:

The contract price shall be paid in the following manner:

(i) Advance payments

The advance payment shall be 30% of the total estimated contract price and payable within 14 days upon approval by the Automation Engineering Project Implementation Units and Other Automation Engineering Project Implementation Units of the application for advance payments.

The advance payment shall be credited into the progress payments (as detailed below) once the aggregate progress payments reached 30% of the total contract sum. At which point, 30% of the advance payments shall be credited into each subsequent progress payment until the aggregate amount of progress payments reached 80% of the total estimated contract sum (inclusive of the advance payments credited) and the entire advance payments are credited.

(ii) Progress payments

Up to 80% of the total contract price based on 80% of the actual amount of work completed each month.

Up to 85% of the total contract price after completion and acceptance of the project.

Up to 97% of the total contract price after settlement and audit.

(iii) Quality warranty

3% of the total estimated contract price shall be retained as quality warranty, which shall be paid (without interest) upon verification of completion of defect liability after the expiry of defect liability period.

Advance payment guarantee: The contractors shall provide an advance payment guarantee, either in the form of cash or a letter of guarantee, with an amount not less than the advance payment payable under the EPC Contract for Automation Engineering Project.

The advance payment guarantee shall be released once the advance payment is fully utilised.

Performance guarantee: The contractors shall provide performance guarantee in the amount equivalent to 10% of the total contract price to the principal by way of cash or a letter of guarantee. The performance guarantee shall be returned to the contractors 3 months after the satisfactory completion inspection and delivery of the Automation Engineering Project and upon the approval by the principal of the application to return the performance guarantee to be submitted by the contractors.

(v) *Construction Supervision Contract*

Date: 3 July 2024 (after trading hours)

Parties: (1) Hydropower Group (as principal);
(2) Sichuan Yilian (as supervisor);
(3) Construction Supervision Implementation Units; and
(4) Other Construction Supervision Implementation Units

Project: The 2023 Rural Power Grid Consolidation and Improvement Project and the New Rural Power Grid Consolidation and Improvement Project.

The Construction Supervision Contract covers two major projects, being the construction supervision of the 2023 Rural Power Grid Consolidation and Improvement Project and the construction supervision of the New Rural Power Grid Consolidation and Improvement Project.

The Group will only take part in the construction supervision of part of the 2023 Rural Power Grid Consolidation and Improvement Project.

Scope of service: Construction supervision services

Conditions precedent: The contract shall become effective subject to the satisfaction of the following conditions precedent:

1. the legal representative or authorised agent of each party to the contract having executed the contract or affixed the seal thereto;
2. Hydropower Group having received the performance guarantee from the approved supervisor;
3. the rural power grid investment contract among Hydropower Group, the Construction Supervision Implementation Units and Other Construction Supervision Implementation Units having been executed and become effective (in the event certain implementation units did not enter into any effective rural power grid investment contract, the project involving such implementation unit shall not be implemented, but it shall not affect the implementation of the other projects under the Construction Supervision Contract);
4. the self-financed funds (if any) of the Construction Supervision Implementation Units and Other Construction Supervision Implementation Units being available;
5. the Independent Shareholders having approved the contract and the transactions contemplated thereunder at the EGM in accordance with the Listing Rules; and
6. the Stock Exchange's approval in connection with the contract and the transactions contemplated thereunder having been obtained.

Quality defect liability period: 12 months

Total estimated contract price payable under the Construction Supervision Contract: RMB39,932,942.00 ^{Note} (tax inclusive), subject to completion and settlement audit report issued by an audit institution engaged by Hydropower Group. **Out of the total estimated contract price of RMB39,932,942.00 ^{Note} (tax inclusive), it is envisaged that the Construction Supervision Implementation Units shall share and be responsible for the payment of RMB7,733,670 (tax inclusive).**

Based on the Company's past experience and estimation, the final settlement amount is expected to have a fluctuation of no more than 5% from the estimated contract price.

Note: The total contract sum of RMB39,932,942.00 (tax inclusive) represent the aggregate of the contract sum of the construction supervision for the 2023 Rural Power Grid Consolidation and Improvement Project (i.e. RMB37,435,804.00 (tax inclusive)) and the contract sum of the construction supervision for the New Rural Power Grid Consolidation and Improvement Project (i.e. RMB2,497,138.00 (tax inclusive)) in the Construction Supervision Contract. **The Group will only take part in the construction supervision for part of the 2023 Rural Power Grid Consolidation and Improvement Project.**

Pricing:

The estimated contract price was the successful tender price offered by Sichuan Yilian in the public tender and was accepted by the bid evaluation committee (評標委員會) after thorough evaluation pursuant to the relevant rules and regulations of the PRC and the tender documents.

The bid evaluation committee was formed in accordance with the requirements of the Management Measures on Bid Evaluation Expert and Bid Evaluation Expert Pool of Sichuan Province* (《四川省評標專家和綜合評標專家庫管理辦法》) (the “Management Measures”) and the Tendering and Bidding Law of the PRC* (《中華人民共和國招標投標法》). As confirmed by the Directors, the bid evaluation committee consisted of nine members, of which six bid evaluation experts were randomly selected from the Bid Evaluation Expert Database of Sichuan Province* (四川省評標專家庫) and three being representatives of Hydropower Group. To the best knowledge of the Directors, the said six randomly selected bid evaluation experts, being Independent Third Parties, are professionals with senior title or equivalent professional level in the PRC with at least 8 years of working experience in the fields of geotechnical engineering and electrical engineering pursuant to the requirements of the Management Measures, while the three representatives of Hydropower Group comprise two senior engineers and one senior accountant.

When selecting the successful bidder, the evaluation panel had considered a basket of factors including, among others, (i) from the business aspects, the bidders’ background, experience, credibility and the bidding price for the required services; and (ii) from the technical aspects, the qualification(s) possessed by the professional team of the bidder to be engaged.

Payment terms:	<p>The contract price shall be paid in the following manner:</p> <ul style="list-style-type: none">(i) 15% of the estimated contract price as advance payments within 14 days upon approval by the Construction Supervision Implementation Units and Other Construction Supervision Implementation Units of the application for advance payments;(ii) up to 80% of the contract price based on the actual amount of construction work completed every two months;(iii) up to 97% of the contract price after settlement and audit, delivery of all supervision materials and execution of project delivery certificate; and(iv) the remaining 3% of the contract price shall be retained as quality warranty and payable after the expiry of the quality defect liability period.
Advance payment guarantee:	<p>The contractors shall provide an advance payment guarantee, either in the form of cash or a letter of guarantee, with an amount not less than the advance payment payable under the Construction Supervision Contract.</p> <p>The advance payment guarantee shall be released once the advance payment is fully utilised.</p>
Performance guarantee:	<p>The supervisor shall provide performance guarantee in the amount equivalent to 10% of the total contract price to the principal by way of cash or a letter of guarantee.</p> <p>The performance guarantee shall be returned to the contractors after the satisfactory completion inspection of the project and upon the approval by the principal of the application to return the performance guarantee to be submitted by the supervisor.</p>

Allocation Arrangement of Contract Price Payable

As detailed above, the Group is responsible for the payment of (i) RMB207,875,798 (tax inclusive) out of the total estimated contract price of RMB967,673,620 (tax inclusive) under the EPC Contract for 10kV and Below Project; (ii) RMB208,728,821.67 (tax inclusive) out of the total estimated contract price of RMB972,316,337.92 (tax inclusive) under the Equipment and Materials Procurement Contract; (iii) RMB107,836,000 (tax inclusive) out of the total estimated contract price of RMB718,304,068.00 (tax inclusive) under the EPC Contract for 35kv and Above Project; (iv) RMB9,863,897 (tax inclusive) out of the total estimated contract price of RMB90,694,397.00 (tax inclusive) under the EPC Contract for Automation Engineering Project; and (v) RMB7,733,670 (tax inclusive) out of the total estimated contract price of RMB39,932,942.00 (tax inclusive) under the Construction Supervision Contract.

The EPC Contract for 10kV and Below Project and the Equipment and Materials Procurement Contract cover the same 26 counties (cities and districts), including Xuzhou District, Gao County, Gong County, Junlian County, Pingshan County and Xingwen County which the Group (through the 10kV and Below Project Implementation Units) is responsible for the works of the projects thereat. The EPC Contract for 35kV and Above Project covers 16 counties (cities and districts), including Xuzhou District, Pingshan County, Gong County and Junlian County, which the Group (through the 35vK and Above Project Implementation Units) is responsible for the works and projects thereat. The EPC Contract for Automation Engineering Project covers 24 counties (cities and districts), including Xuzhou District, Gao County, Gong County, Julian County, Pingshan County and Xingwen County, which the Group (through the Automation Engineering Project Implementation Units) is responsible for the works and projects thereat. The Construction Supervision Contract covers 27 counties (cities and districts), including Xuzhou District, Gao County, Gong County, Julian County, Pingshan County and Xingwen County, which the Group (through the Construction Supervision Implementation Units) is responsible for the construction supervision thereat.

Generally, based on the parties' agreed work allocation arrangement, each of the implementation units under the 2023 Rural Power Grid Contracts would be responsible for the part of the projects conducted in the counties, cities or districts where it is located at (including overseeing the work quality of the subcontractor, progress of the construction and payment, etc.), and share the related costs of such part of the projects.

On this premise, the Group (in the capacity as the relevant implementation units) would bear the costs of the projects conducted in Xuzhou District, Gao County, Gong County, Julian County, Pingshan County and/or Xingwen County, and hold ownership of such part of the assets upon completion of the relevant construction it is responsible for.

The amount of the costs to be shared under each 2023 Rural Power Grid Contracts is therefore determined with reference to the aforesaid agreed work allocation arrangement between the parties and the quotations in the successful tender, which set out the estimated fee quote for the works to be carried out in each county (city, district).

(a) *Reasons for and benefits of entering into the 2023 Rural Power Grid Contracts*

As stated in the "Letter from the Board", according to the Approval of the Sichuan Province Development and Reform Commission on the 2023 Rural Power Grid Consolidation and Improvement Project Feasibility Study Report (Chuan Fa Gai Neng Yuan [2023] No. 86) (四川省發展和改革委員會關於2023年農網鞏固提升工程項目可行性研究報告的批覆(川發改能源[2023]86號)), Hydropower Group shall be responsible for the unified organization and implementation of the 2023 Rural Power Grid Consolidation and Improvement Project. As such, Hydropower Group conducted public tender in compliance with the requirements of the Bidding Law of the People's Republic of China (《中華人民共和國招投標法》) and other relevant laws and regulations and finally determined the winning bidders of the 2023 Rural Power Grid Contracts. The implementation of the 2023 Rural Power Grid Consolidation and Improvement Project will further improve the power grid structure within the supply area of the Group, enhance the quality of rural power grid electricity supply within the supply area and better serve the rural areas and boost the economy.

The Directors (including the independent non-executive Directors who express their views after considering the advice from the Independent Financial Adviser but excluding the Directors who have abstained from voting on the Board resolutions (as set out below) to approve the 2023 Rural Power Grid Contracts)) are of the view that the 2023 Rural Power Grid Contracts are entered into (i) on normal commercial terms or better; and (ii) on terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

As the 2023 Rural Power Grid Consolidation and Improvement Project will improve the power grid structure within the supply area of the Group and the quality of such supply, we considered entering into the contracts will boost the Group's competitiveness in the rural areas. Further, since the implementation of such projects boosts the economy of the rural areas, it would demonstrate the Company's response to the call of the government policy for rural areas development. Hence, entering into the 2023 Rural Power Grid Contracts is in the interests of the Company and the Shareholders as a whole if the terms of such 2023 Rural Power Grid Contracts are fair and reasonable.

(b) Our views on the 2023 Rural Power Grid Contracts

The Public Tender Process

It is noted that the successful bid documents for 2023 Rural Power Grid Consolidation and Improvement Project are determined via public tender processes ("**Public Tenders**"). We have reviewed all of the five documents of invitation to tender ("**Invitation to Tenders**") regarding the 2023 Rural Power Grid Contracts and it is observed that the such processes as stipulated were in line with the process approved by Sichuan Provincial Development and Reform Commission (四川省發展和改革委員會) under the Approval of the Sichuan Province Development and Reform Commission on the 2023 Rural Power Grid Consolidation and Improvement Project Feasibility Study Report (Chuan Fa Gai Neng Yuan [2023] No. 86) (四川省發展和改革委員會關於2023年農網鞏固提升工程項目可行性研究報告的批覆(川發改能源[2023]86號)).

We have noted that Hydropower Group conducted public tender in compliance with the requirements of the Bidding Law of the People's Republic of China (《中華人民共和國招投標法》), which provides that, including but not limited to, (i) the tenders should be awarded after fair and transparent assessment; (ii) the invitation to tenders should be sent to over three potential bidders; (iii) the bid evaluation committee should be consisted of over five members, two thirds of which should be experienced in related technology and/or economics fields. The details of our observation were set out in the paragraphs below.

The Invitations to Tender were released in a national platform (i.e. 全國公共資源交易平台(四川省)) and provided approximately one (1) month for the potential bidders to prepare the implementation proposals and calculate the relevant budget for the consideration of the respective project. We considered the length of the bidding period of approximately one (1) month is fair to enable the experienced bidder companies to prepare their proposals and make accurate budget to cover the implementation of the projects in the stipulated districts or counties.

The bid documents for the 2023 Rural Power Grid Consolidation and Improvement Project were evaluated by the Bid Evaluation Committees (評標委員會) respectively. Each Bid Evaluation Committee should comprise nine (9) persons, the composition of which were in compliance with the regulations as announced by the Sichuan Provincial People's Government. We have reviewed the tender assessment records regarding the selection of Bid Evaluation Committee members and we observed that save as the three members are representatives of Hydropower Group, the other six members are randomly selected from the Bid Evaluation Expert Database of Sichuan Province Province* (四川省評標專家庫) pursuant to the selection criteria include such members should have graduated from relevant majors to ensure they have the professional knowledge on the related field. Further, for all the six Bid Evaluation Committees, the selected six experts all have relevant qualification which demonstrated they possess the knowledge and skills to assess the qualification and capacity of the bidders. We were informed by the Company that every six selected members for the respective Bid Evaluation Committee had extensive working experience in the related field to the respective 2023 Rural Power Grid Contracts. Further, the members of the Bid Evaluation Committees shall be disqualified in any of the following cases:

- (1) a close relative of the principal person in charge of the bidder or tenderer;
- (2) a personnel of the competent project department or administrative supervision department;
- (3) has economic interests with the bidders that may affect the fair evaluation of the bids; or
- (4) had received any administrative penalties or criminal sanctions for any illegal behaviour conducted in any tenders, tenders evaluation or any related activities.

We are of the view that the requirements of the bid evaluation experts regarding the relevant technical/knowledge skills enable the bid evaluation to be conducted in a fair and effective way.

The respective evaluation mechanism as stipulated under the Invitation to Tenders allocates different range of scores to different aspects, including but not limited the bidders' legal capacity to implement the projects; their on-going operating capacity, their track records; their qualification and reputation in the industry; their quotation and the degree of deviance of their quotation from the benchmark quotation which is derived from the all quotations from the bid documents; and their after-project services. The successful bidders should be those who got the highest scores, and if there are bidders who were marked the same scores, the one with the lower quotation shall outweigh. We have reviewed the evaluation reports for the 2023 Rural Power Grid Consolidation and Improvement Project and observed the assessment of the bid documents were in line with the evaluation mechanism as stipulated.

We have reviewed the evaluation reports for all the five contracts consisting of 2023 Rural Power Grid Contracts and we observed that the evaluation reports have declared none of the nine (9) experts of the respective Bid Evaluation Committee for the five contracts has conflict of interest pursuant to the scenarios listed above, which was in compliance with the the regulations as announced by the Sichuan Provincial People's Government. Moreover, the number of bid documents which were submitted for the 2023 Rural Power Grid Contracts ranged from four (4) to six (6), and each bid document was assessed in line with the standard as prescribed under the Invitations to Tenders. The successful bidders who were awarded the tenders for the 2023 Rural Power Grid Contracts were the ones who got the highest scores. We considered the selection processes to enable the most competitive bidders to be rewarded the tenders were fair and reasonable, and in the interests of the Company and Shareholders as a whole.

Further, the name of the successful bidders of the Public Tenders will be publicised for three to five business days and any objection could be raised out during such period. As discussed by the Company, there was no objection being raised out on the successful bidders of Public Tenders for the 2023 Rural Power Grid Contracts.

We considered that the Public Tenders were conducted in a transparent way and it is fair and reasonable to weigh a complex set of factors to evaluate the bidders and their bid documents.

The principal terms of the 2023 Rural Power Grid Contracts

We have reviewed the 2023 Rural Power Grid Contracts and it is noted that such contracts have provided the certainty of terms, including but not limited to parties' rights and obligation, the scope of service, the consideration of contracts, the payment terms, the schedule of the project implementation, the quality/defect period, the advancement guarantee and the performance guarantee, which are normal commercial terms under the contracts for construction projects.

We noted that one of the conditions precedent of the 2023 Rural Power Grid Contracts is that Hydropower Group having received the performance guarantee from the approved counterparties of the respective contract, and the advance payments of the consideration should also be guaranteed. We are of the view that the clause of advance payment guarantee and performance guarantee protect the interests of the Company and the Shareholders as a whole in the event that there was any default or material defect by the counterparties of the Company and the Company exerts the rights to claim damages.

From the details of the processes of Public Tenders as disclosed above, we considered that the consideration of the 2023 Rural Power Grid Contracts are fair and reasonable given the tenders were awarded to the bidders whose bid documents obtained the highest marks after being evaluated by the Bid Evaluation Committees.

For the payment terms, we have selected sample contracts to see whether the 2023 Rural Power Grid Contracts are in line with the industry practice. Our selection criteria include: (i) the sample contracts should have the similar scope of service with the 2023 Rural Power Grid Contracts; (ii) the duration of the projects under the sample contracts were similar to those of the 2023 Rural Power Grid Contracts; and (iii) the projects under the sample contracts were completed during the period from year 2021 to the seven months ended 31 July 2024. According to our selection criteria, we have been provided a set of sample contracts (“**Sample Contracts**”) consisting of seven (7) sample contracts of the EPC Contract for 10kV and Below Project; seven (7) sample contracts of the Equipment and Materials Procurement Contract; one (1) sample contract of the EPC Contract for 35kv and Above Project; one (1) sample contract of the EPC Contract for Automation Engineering Project; and seven (7) sample contracts of the Construction Supervision Contract. As confirmed by the Company, such Sample Contracts were representative.

After reviewing the sample contracts, we are of the view that the payment terms of EPC Contract for 10kV and Below Project, Equipment and Materials Procurement Contract, EPC Contract for 35kv and Above Project, Automation Engineering Project, and Construction Supervision Contract respectively are generally in line with the Sample Contracts, which are fair and reasonable.

Further, the payment terms of the 2023 Rural Power Grid Contracts have been provided and stipulated under the Invitation to Tender, which demonstrate such payment terms are fair and acceptable from the perspective of the Hydropower Group (which also represents the Company). The bidders who submit the bid documents are not allowed to amend such payment terms.

In light of what has been discussed above, we are of the view that the principal terms of the 2023 Rural Power Grid Contracts are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the transactions contemplated under the Electricity Purchase Framework Agreements and the 2023 Rural Power Grid Contracts are on normal commercial terms, and are entered into in the ordinary and usual course of business of the Group; and (ii) the terms and conditions contained under the Electricity Purchase Framework Agreements and its proposed annual caps, and the 2023 Rural Power Grid Contracts are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Electricity Purchase Framework Agreements and the 2023 Rural Power Grid Contracts and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Messis Capital Limited



Kaiser Wan
Managing Director

Mr. Kaiser Wan is a licensed person registered with the Securities and Futures Commission and a responsible officer of Messis Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 10 years of experience in the accounting and investment banking industries.