

*To the Independent Board Committee and the
Independent Shareholders*

May 18, 2026

Dear Sirs,

**DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION IN RELATION
TO THE ACQUISITION OF EQUITY INTEREST IN TWO COMPANIES INCLUDING
CANGNAN NUCLEAR POWER FROM CGN**

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 discloseable and connected transactions contemplated under the Share Transfer Agreement. Details of which, amongst other things, are set out in the letter from the Board (the **“Letter from the Board”**) contained in the circular of the Company dated May 18, 2026 (the **“Circular”**), of which this letter forms part. Terms defined in this Circular shall have the same meanings when used in this letter unless the context requires otherwise.

On 28 April, 2026, the Company exercised the acquisition rights in respect of the Share Interests, and the Company (as the purchaser) entered into the Share Transfer Agreement with CGN (as the vendor). Pursuant to the Share Transfer Agreement, the Company has agreed to acquire and CGN has agreed to dispose of the Share Interests, at the total cash consideration of approximately RMB8.347 billion. As one of the conditions as set out in the 2025 annual report of the Company, the Independent Non-executive Directors have reviewed, considered and approved the exercise of the acquisition right. Upon completion of the Acquisition, the Target Companies will become subsidiaries of the Company. The assets, liabilities and financial results of the Target Companies will be consolidated into the financial statements of the Group.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a disclosable transaction on the part of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, CGN, which holds approximately 58.89% of the issued share capital of the Company, is the controlling shareholder of the Company. Under Rule 14A.07 of the Listing Rules, CGN is a connected person of the Company. Therefore, the Acquisition constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, independent financial advice and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the Independent Non-executive Directors, was established to consider the terms of the Share Transfer Agreement and to advise the Independent Shareholders on whether the Share Transfer Agreement is in the interests of the Company and the Shareholders as a whole, and whether the terms of the Share Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and to advise the Independent Shareholders on how to vote on the relevant resolution to be proposed at the EGM. We, Anglo Chinese Corporate Finance, Limited, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence in accordance with Rule 13.84 of the Listing Rules. In the last two years prior to the Latest Practicable Date, we have acted as the independent financial adviser to the Company in relation to (i) the discloseable and connected transaction in relation to acquisition of the equity interests in four companies including Huizhou Nuclear Power from CGN; and (ii) the revision of annual caps for continuing connected transactions, details of which are set out in the circular of the Company dated 18 September 2025. Apart from normal advisory fees payable to us in connection with this appointment and the transaction listed above, no arrangement exists whereby we will receive any fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion, we consider that we have reviewed, among others, (i) the Share Transfer Agreement; (ii) the annual report of the Company for the year ended December 31, 2024 and 2025; (iii) the financial information of the Target Companies; and (iv) the Valuation Reports of the Target Companies prepared by the Valuer as at the Valuation Benchmark Date, a summary of which is set out in Appendix II to Appendix III of the Circular.

We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Hong Kong Listing Rules including the notes thereto to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information, statements, opinion and representations contained or referred to in this Circular and all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter from the Board contained in this Circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in this Circular.

The Company confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in this Circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in this circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation into the business and affairs or the prospects of the Company, CGN or any of their respective subsidiaries or associates.

BACKGROUND INFORMATION OF THE ACQUISITION

Information of CGN

Established on September 29, 1994, CGN is a large clean energy enterprise under supervision of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. CGN is principally engaged in the generation and sale of power, and the construction, operation and management of nuclear and non-nuclear clean projects. As at the Latest Practicable Date, CGN held approximately 58.89% of the issued share capital of the Company and is the controlling shareholder of the Company.

Information of the Company

The Company mainly constructs, operates and manages nuclear power stations, sells electricity generated by these stations, and organizes and develops the design and R&D of nuclear power stations.

Set out below are the summarised audited annual financial information of the Group for the three financial years ended December 31, 2023, 2024 and 2025 (the “FY2023”, “FY2024” and “FY2025”, respectively), as extracted from the Company’s annual report 2024 and 2025:

Consolidated Income Statement (RMB million)	For the year ended December 31,		
	2023 (Audited and restated)	2024 (Audited and restated)	2025 (Audited)
Operating revenue	74,460	78,945	75,697
Operating profit	20,515	22,005	18,425
Net profit from continuing operation	16,984	17,468	14,731

FY2025 vs FY2024

Operating revenue of the Group amounted to approximately RMB75,697 million for FY2025, representing a decrease of approximately 4.11% compared to approximately RMB78,945 million for FY2024. Drop in sales of electricity which comprised approximately 81.60% of operating revenue served as the main contributor to the decreased revenue. The Company has indicated that the decrease in revenue from sales of electricity was primarily due to the year-on-year decrease in the market-based transaction tariffs.

Operating profit of the Group amounted to approximately RMB18,425 million for FY2025, representing a decrease of approximately 16.27% compared to approximately RMB22,005 million for FY2024, driven mainly by increased cost of sales of electricity, which led to the increased operating cost.

Net profit from continuing operation of the Group amounted to approximately RMB14,731 million for FY2025, representing a decrease of approximately 15.67% compared to approximately RMB17,468 million for FY2024.

FY2024 vs FY2023

Operating revenue of the Group amounted to approximately RMB78,945 million for FY2024, representing an increase of approximately 6.02% compared to approximately RMB74,460 million for FY2023. The increase in operating revenue was mainly due to increase in sales of electricity and construction, installation and design services. The Company has indicated that the drivers for the growth in sales of electricity came from the approximately 6.81% year-on-year increase in total electricity consumption in the PRC and approximately 6.13% year-on-year increase in on-grid power generation. Provision of construction, installation and design services were mainly transacted with related parties. Revenue of which was measured in terms of progress towards completion.

Operating profit of the Group amounted to approximately RMB22,005 million for FY2024, representing an increase of approximately 7.26% compared to approximately RMB20,515 million for FY2023, driven mainly by increased margin in sales of electricity, reduced finance cost, increased investment income and other gains including VAT refunds.

Net profit from continuing operation of the Group amounted to approximately RMB17,468 million for FY2024, representing an increase of approximately 2.85% compared to approximately RMB16,984 million for FY2023.

Consolidated Balance Sheet (RMB million)	As at December 31,		
	2023 <i>(Audited and restated)</i>	2024 <i>(Audited and restated)</i>	2025 <i>(Audited)</i>
Total assets	450,886	471,533	505,656
– Non-current assets	376,495	398,821	427,765
– Current assets	74,391	72,711	77,891
Total liabilities	277,164	288,588	329,442
– Non-current liabilities	196,796	205,888	211,680
– Current liabilities	80,368	82,700	117,762
Total equity attributable to Shareholders of the parent company	120,386	128,585	123,188

December 31, 2025 vs December 31, 2024

The Group's total assets increased by approximately 7.24% from approximately RMB471,533 million as at December 31, 2024 to approximately RMB505,656 million as at December 31, 2025. Such increase in total assets was mainly attributable to increase of approximately 33.95% in construction in progress from approximately RMB85,052 million to approximately RMB113,931 million partially offset by a decrease of approximately 4.04% in fixed assets from approximately RMB263,049 million to approximately RMB252,433 million as at December 31 2025.

The Group's total liabilities increased by approximately 14.16% from approximately RMB288,588 million as at December 31, 2024 to approximately RMB329,442 million as at December 31, 2025. The increase in total liabilities was mainly attributable to an increase of approximately 137.68% in short-term loans from approximately RMB17,735 million to approximately RMB42,151 million partially offset by a decrease of approximately 0.93% in long-term loans from approximately RMB191,999 million to approximately RMB190,203 million as at December 31, 2025.

The Group's total equity attributable to Shareholders of the parent company decreased by approximately 4.20% from approximately RMB128,585 million as at December 31, 2024 to approximately RMB123,188 million as at December 31, 2025. The decrease in total equity attributable to Shareholders of the Company was mainly attributable to a decrease of approximately 51.78% in capital reserve from approximately RMB20,083 million to approximately RMB9,684 million partially offset by an increase of approximately 6.58% in retained earnings from approximately RMB50,146 million to approximately RMB53,448 million as at December 31, 2025.

Information on the Target Companies

Cangnan Nuclear Power

Cangnan Nuclear Power is a company established in the PRC, primarily engaged in the investment, development, construction, and operation of nuclear power plants. Immediately prior to the completion of the Acquisition, it was owned as to 46% by CGN, 34% by Zheneng Electric Power, 9% by Wenzhou Nuclear Development, 9% by Haixi Construction, and 2% by Geely Technology.

Cangnan Nuclear Power is responsible for the development, construction, and operation of Cangnan Phase I Project. Cangnan Unit 1 is qualified for commercial operation on April 29, 2026, while Cangnan Unit 2 is expected to commence commercial operation in 2027, respectively. The two units have an aggregate installed capacity of approximately 2,416 MW, and each of them has a planned operating term of 60 years. It is expected that the total investment of Cangnan Phase I Project will be approximately RMB48.645 billion. As of the Valuation Benchmark Date, being September 30, 2025, the investment made to Cangnan Phase I Project amounted to approximately RMB41.858 billion and approximately RMB6.787 billion to be invested subsequent to the Valuation Benchmark Date. Pursuant to the Articles of Association of CGN Cangnan Nuclear Power Co., Ltd. (《中廣核蒼南核電有限公司章程》), the registered capital of the company shall account for 30% of the total investment. The shareholders shall make capital contributions in installments according to the progress of the project. The capital increase in each installment shall be proposed by the board of directors of Cangnan Nuclear Power based on the progress and capital requirements of the project, subject to the approval at the general meeting of Cangnan Nuclear Power, and shall be paid in cash in RMB by the respective parties in proportion to their subscribed capital contributions.

The financial information of Cangnan Nuclear Power is as follows:

	For the year ended December 31, 2022 (audited) RMB'000	For the year ended December 31, 2023 (audited) RMB'000	For the year ended December 31, 2024 (audited) RMB'000	For the year ended December 31, 2025 (audited) RMB'000
Total assets	15,921,299	24,421,014	34,389,226	42,519,515
Total liability	11,235,799	17,524,886	24,839,986	30,491,964
Revenue	0	0	0	0
Net profit before tax	0	0	0	0
Net profit after tax	0	0	0	0

Cangnan Second Nuclear Power

Cangnan Second Nuclear Power is a company established in the PRC, primarily engaged in the investment, development, construction, and operation of nuclear power plants. Immediately prior to the completion of the Acquisition, it was owned as to 51% by CGN, 31% by Zheneng Electric Power, 8% by Wenzhou Nuclear Development, 8% by Haixi Construction, and 2% by Geely Industry Investment.

Cangnan Second Nuclear Power is responsible for the development, construction, and operation of the Cangnan Phase II Project and Cangnan Phase III Project. It is expected that Cangnan Unit 3 will commence commercial operation in 2030, and Unit 4 is currently in the pre-FCD preparation stage. The two units have an aggregate installed capacity of approximately 2,430 MW, and each of them has a planned operating term of 60 years. The Cangnan Unit 5 and Unit 6 project, involves the planned construction of two million-kilowatt-class nuclear power units, and is currently undergoing preparatory work prior to the application for official approval. It is expected that the total investment for Cangnan Phase II Project will be approximately RMB43.788 billion. As at the Valuation Benchmark Date, being September 30, 2025, the investment made to Cangnan Phase II Project amounted to approximately RMB10.159 billion, and approximately RMB33.629 billion to be invested subsequent to the Valuation Benchmark Date. Pursuant to the Articles of Association of CGN Cangnan Second Nuclear Power Co., Ltd. (《中廣核蒼南第二核電有限公司章程》), the registered capital of the company shall account for 30% of the total investment. The shareholders shall make capital contributions in installments according to the progress of the project. The capital increase in each installment shall be proposed by the board of directors of Cangnan Second Nuclear Power based on the progress and capital requirements of the project, subject to the approval at the general meeting of Cangnan Second Nuclear Power, and shall be paid in cash in RMB by the respective parties in proportion to their subscribed capital contributions.

The financial information of Cangnan Second Nuclear Power is as follows:

	For the year ended December 31, 2023 <i>(audited)</i> RMB '000	For the year ended December 31, 2024 <i>(audited)</i> RMB '000	For the year ended December 31, 2025 <i>(audited)</i> RMB '000
Total assets	1,336,930	5,233,133	11,659,078
Total liability	1,286,930	4,392,497	8,254,978
Revenue	0	0	0
Net profit before tax	0	0	0
Net profit after tax	0	0	0

Industry Overview

On March 10, 2026, at the 2nd Nuclear Energy Summit held in Paris, China has announced its decision to join the “Declaration to Triple Nuclear Energy Capacity by 2050”, originally launched by 22 countries at the 2023 United Nations Climate Change Conference or Conference of the Parties of the United Nations Framework Convention on Climate Change. This move aligns with the national policies outlined in the 15th Five-Year Plan (「十五五」規劃), in which the Chinese government has put emphasise on the acceleration of the construction of a new energy system by increasing the share of new energy supply, including nuclear energy, to strengthen national energy capabilities. Along with the Atomic Energy Law of the People’s Republic of China becoming effective on January 15, 2026, which is expected to strengthen regulatory oversight, promote industrial innovation, raise awareness on nuclear safety/security, and highlight controlled fusion, positioning China as a responsible, high-tech nuclear power.

According to the China Nuclear Energy Association, as of December 31, 2025, the PRC had 59 operating nuclear reactors totalling approximately 62,519 MW of installed capacity, producing approximately 468 billion kilowatt-hours of electricity throughout the year, accounting for approximately 4.82% of the total amount of electricity generated in China for 2025. With the increase in number of units under construction and projects approved by the government, China leads the world in the scale of nuclear power development. Technologically, China has made significant strides toward self-reliance, commercialising its domestically developed third-generation reactors such as “Hualong One” and “Guohe One”, achieving full localisation of critical equipment. The industry is also progressing on fourth-generation technologies, thereby strengthening the entire nuclear value chain. Looking ahead, China’s nuclear power sector is positioned for rapid and sustained growth. According to China Nuclear Energy Association, by 2040, nuclear power is expected to account for approximately 10% of the country’s total electricity generation, with installed capacity potentially surpassing 200 GW.

Based on the aforesaid, we understand that China's nuclear power industry is well on track for a fast growth over the coming decades, playing a critical role in the country's energy transition and carbon emission reduction efforts. According to the Company, by December 31, 2025, the installed capacity of nuclear power stations in operation and under construction under the Company's management was around 56,060MW, accounting for 44.48% of the national nuclear power capacity of China. We are advised by the Company that it has strengthened its technological innovation in nuclear energy, implemented dedicated strategic R&D initiatives, actively advanced the development of fourth-generation nuclear power technologies and SMRs, and continuously monitored the latest developments in advanced technologies both domestically and internationally. Having considered the above analysis, we concur with the Directors' view that the expansion through the Acquisition could help the Company maintain its leading position in the domestic market and seize the fast growth trend in China's nuclear power industry.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Share Transfer Agreement and the Acquisition, we have taken into account the following principal factors and reasons:

SHARE TRANSFER AGREEMENT

Reasons for and benefits of enter into the Share Transfer Agreement

As set out in the Letter from the Board, the Company considers that the Acquisition will bring in the following benefits:

Mitigate potential competition between the Group and CGN

As disclosed in the Company's 2025 annual report, the Company is positioned to be the sole platform of CGN for nuclear power generation. Pursuant to the deed of non-competition entered into by CGN in favour of the Company on November 21, 2014, CGN has given certain non-competition undertakings to the Company (for the benefit of itself and other members of the Group), that it will not, and will procure its associates and connected persons (other than any members of the Group), at present or in the future, not to, directly or indirectly, among others, operate, involve in, have an interest in, engage in, acquire or hold any business or activities in the PRC or overseas that compete or likely compete with the business operated by the Group during the agreed restricted periods. To avoid competition between CGN and the Group, CGN has also granted the Company a right, which is exercisable during the term of the deed of non-competition, to acquire any equity interests, assets or other interests in the retained business carried out by CGN in one or more scenarios.

Pursuant to the right to acquire the retained business under the deed of non-competition, the Company has the right to choose to acquire, at any time, all or part of the interests in the nuclear power retained business being planned or developed by CGN. This undertaking shall remain in force until CGN ceases to be the controlling shareholder of the Company or until the Company ceases to be listed on the Stock Exchange. As disclosed in the Company's 2025 annual report, the Target Companies belong to the retained business. Therefore, the Acquisition will help reduce the potential competition between the Group and CGN.

Capacity expansion to drive growth and market leadership

The Acquisition will enhance the installed capacity of nuclear power units controlled by the Company and expand its pipeline of reserve nuclear power projects, thereby accelerating its strategic objective of becoming the sole platform for CGN's nuclear power generation. By expanding its portfolio of both operational units and projects under construction, the Company can strengthen its ability to achieve growth in nuclear power generation and overall business performance. This expansion, together with the Company's multiple acquisitions in 2025 are also a crucial pathway to continue to increase the Company's market share and consolidating its long-term competitiveness within the nuclear power industry. Notably, all the nuclear power units involved in the Acquisition adopt the Hualong One technology reactor design. As advised by the Company, the Hualong One is a third-generation, one-million-kilowatt-class nuclear power technology with independent intellectual property rights, developed based on more than 30 years of accumulated experience, technology, and talent in the design, construction, operation, and research and development of nuclear power plants in China. The Group has continued to promote design optimisation and technological improvements for the Hualong One, focusing on enhancing its cost-effectiveness, advancement, and localisation. These efforts have laid a solid foundation for improving the competitiveness of the Company's Hualong One technology.

With the prospect of performance contributions expected from the Cangnan Phase I Project commencing commercial operation in 2026 and 2027, the Acquisition facilitates near term earnings growth while underpinning sustainable pipeline for long-term growth in competitiveness. This aligns directly with the Company's goal to consolidate its leading industry status and supports China's national objectives for low-carbon development and energy security, consistent with the Company's commitment to Shareholders regarding steady corporate development and value creation.

Having carefully considered that the Share Transfer Agreement and the Acquisition represents (i) mitigation of the potential industry competition between CGN and the Group; and (ii) a significant enhancement to the Company's portfolio through the immediate capacity enhancement and the strengthening of its long-term development pipeline, we are of the view that the Share Transfer Agreement and the Acquisition are fair, reasonable, and in the best interests of the Company and its Shareholders as a whole.

Principal terms of the Acquisition

- Date** : April 28, 2026
- Parties** : (1) the Company as purchaser
(2) CGN as vendor
- Subject matter** : the Company has agreed to acquire and CGN has agreed to dispose of the Share Interests, representing (i) 46% of the entire equity interests in Cangnan Nuclear Power; and (ii) 51% of the equity interests in Cangnan Second Nuclear Power.
- Consideration and payment terms** : The total consideration for the sale and purchase of the Share Interests is approximately RMB8.347 billion, comprising (i) approximately RMB6.536 billion for 46% of the entire equity interests in Cangnan Nuclear Power; and (ii) approximately RMB1.811 billion for 51% of the equity interests in Cangnan Second Nuclear Power. The total consideration shall be payable by the Company to CGN in cash within five working days from the date on which all conditions precedents are fulfilled. The Company intends to satisfy the consideration by the internal resources of the Group.

Further details of the principal terms of the Share Transfer Agreement are set out in the Letter from the Board.

Analysis on the principal terms of the Share Transfer Agreement***Basis of the consideration of the Acquisition***

The consideration for the Acquisition of approximately RMB8.347 billion comprising of (i) approximately RMB6.536 billion for 46% of Cangnan Nuclear Power; and (ii) approximately RMB1.811 billion for 51% of Cangnan Second Nuclear Power. The consideration was determined based on arms' length negotiations between the Company and CGN with reference to the valuation of the entire equity interests in the Target Companies held by the shareholders as at the Valuation Benchmark Date as appraised by the Valuer (the "**Appraised Value**").

With a view to evaluate the basis of the Appraised Value of the Share Interests, we have reviewed and discussed the contents of the valuation reports of the Target Companies (the "**Valuation Reports**") and have discussed with the Valuer regarding the valuation of the Target

Companies with details set out below, including the Valuer's scope of work and expertise, the methodologies, the valuation assumptions, and the Valuation Benchmark Date, adopted in the Valuation Reports. Further details of the Valuation Reports are set out in Appendix II to Appendix III of the Circular.

Scope of work and qualifications of the Valuer

The Valuer was engaged to prepare the Valuation Reports which set out as the independent valuation on 100% interest in the Target Companies as at the Valuation Benchmark date (the “**Independent Valuation**”). The Valuation Reports have been prepared in compliance with the relevant professional standards issued by the Ministry of Finance of the PRC and China Appraisal Society.

We have discussed with the Valuer regarding the expertise of the Valuer and the relevant engagement team members. We understand that the Valuer is a qualified PRC asset valuation agency accredited by China Appraisal Society to perform the Independent Valuation and has experience in handling valuation exercises for equity within the PRC and around the world. The 2 responsible signing persons of the Valuation Report have over 9 years' experience in conducting valuation exercises, respectively. We have also enquired with the Valuer and the Valuer confirmed that it is independent from the Company, the Target Companies and CGN and other shareholders of the Target Companies to perform the Independent Valuation under the relevant professional standards.

We have reviewed the terms of the Valuer's engagement letter as well as the purpose and scopes set out in the Valuation Reports. We noted that the scope of work is appropriate for the Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer.

Valuation methodology

Based on our discussion with the Valuer and review of the Valuation Reports, it is noted that the Valuer has concluded the Independent Valuation based on the asset-based approach. We understand that the Valuer has considered the three commonly used valuation approaches for valuation of a company, namely the income approach, the market approach and the asset-based approach:

- (1) Income approach: Under the income-approach, the value of a company is appraised based on discounted future cash flows. For the valuation of the Target Companies, as this approach requires the reasonable foundation to forecast future cash flows and to quantify associated risks, neither of which could be established given that the projects undertaken by the Target Companies are either in the construction stage, the pre-FCD preparation stage, or had not yet obtained approval as of the Valuation Benchmark Date. Therefore, the income approach was not adopted by the Valuer as the final valuation conclusion in the Independent Valuation.

- (2) Market approach: Under the market approach, the value of a company is appraised based on comparison with comparable companies and/or transactions. However, the applicability of this approach is limited for the valuation of the Target Companies, given the limited number of companies available for comparison, coupled with the fact that no reliable market data can be obtained for comparable transactions due to the fact that Cangnan Phase I Project and Cangnan Phase II Project were still under construction as of the Valuation Benchmark Date and Cangnan Phase III Project had yet to obtain approval.
- (3) Asset-based approach: Under the asset-based approach, the value of a company is appraised based on the value of individual assets and liabilities. The Valuer considered that using the asset-based approach would be most suitable for the valuation of the Share Interests, given that the Valuer was able to verify and assess the value of the assets and liabilities of the Target Companies primarily with reference to the financial statements of the Target Companies.

We have evaluated the reasons behind the selection of the asset-based approach as the valuation methodology for the Independent Valuation, including (i) the market approach is not adopted mainly because of the limited number of comparable companies available in the market; (ii) the income approach is not adopted mainly because the Valuer has identified significant uncertainties in the parameters related to the construction, production and economic indicators of such nuclear power project. In particular, the electricity tariff level is heavily influenced by the macroeconomic environment and relevant industry policies in the PRC and is subject to potentially significant fluctuations in the foreseeable future, which may lead to considerable uncertainty in the prospects of such companies. As a result, the Valuer is of the view that the aforementioned factors may still have certain impacts on the accuracy of the valuation results obtained by the income approach, while the market value of assets is appraised and estimated from the perspective of asset replacement under asset-based approach, which may give an objective reflection of the market value of the enterprise at the current stage. Based on the above, we concur with the Valuer that the adoption of the asset-based approach is fair and reasonable.

Valuation assumptions

As part of our work performed, we have reviewed the Valuation Reports and discussed with the Valuer in respect of the assumptions adopted for performing the Independent Valuation, details of which are set out in Appendix II to Appendix III of the Circular. We understand from the Valuer that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Independent Valuation. We also consider that the assumptions adopted in the Valuation Report are general in nature and we are not aware of any material facts which lead us to doubt the reasonableness of the assumptions adopted by the Valuer.

The Valuation Benchmark Date

According to the Valuation Reports, the Valuation Benchmark Date is September 30, 2025. We noted that there is a seven-month period commencing on the Valuation Benchmark Date and ending on the Latest Practicable Date. After discussing the matter with representatives of the Company and reviewing the Share Transfer Agreement, we understand that, during this period, any profits or losses incurred by the Target Companies will be recognised and borne by CGN in proportion to its respective equity holdings in the Target Companies. Following completion of the Acquisition, the Company will engage an accounting firm to audit the Target Companies to confirm the profits and losses for this period. Given this arrangement, we concur with the Valuer's conclusion that no material adjustments need to be made in the Appraised Value between the Valuation Benchmark Date and the Latest Practicable Date.

Details of valuation

We have reviewed the Valuation Reports and discussed with the Valuer regarding its work done to arrive at the valuation of different items. We understand from the Valuer that when performing the Independent Valuation based on asset-based approach, the Valuer categorised the assets and liabilities of the Target Companies into different categories, mainly comprised of fixed assets, construction in progress, intangible assets and other non-current assets, while majority of the liabilities are non-current liabilities.

We noticed and understood from the Valuation Reports that the respective valuation of the Target Companies were carried on adjusted net assets method ("**Adjusted NAV**"), of which all the subjects' individual asset and liability account categories are analysed and valued separately. The value of the individual assets (both tangible and intangible assets) less the value of the liabilities (both recorded and contingent liabilities) represents the business value of the Target Companies. The Adjusted NAV is a common method for estimating the value of businesses which are still under development.

According to the summaries of the Valuation Reports as set out in Appendix II to Appendix III to the Circular, the Appraised Value amounted to approximately RMB16.944 billion compared to approximately RMB14.514 billion, being the sum of the book values of the Target Companies, representing an appreciation of approximately RMB2.430 billion. The appreciation was incurred from both Cangnan Nuclear Power and Cangnan Second Nuclear Power, mainly due to appreciation in non-current asset. Below shows the book value and appraised value of each of the Target Companies as at the Valuation Benchmark Date.

Items	Book Value RMB '000	Appreciation/ (Depreciation) RMB '000	Appraised Value RMB '000
<u>Cangnan Nuclear Power</u>			
Current assets	3,565,872.0	—	3,565,872.0
Non-current assets	38,292,123.3	2,192,059.0	40,484,182.3
Included: Fixed assets	338,367.6	84,277.5	422,645.1
Construction in progress	31,652,655.7	1,875,140.0	33,527,795.7
Right-of-use assets	62,395.4	—	62,395.4
Intangible assets	590,616.2	232,641.5	823,257.7
Long-term deferred expense	494,806.0	—	494,806.0
Other non-current assets	5,153,282.4	—	5,153,282.4
Total assets	41,857,995.3	2,192,059.0	44,050,054.3
Current liabilities	1,556,906.2	—	1,556,906.2
Non-current liabilities	28,938,660.1	—	28,938,660.1
Total liabilities	30,495,566.3	—	30,495,566.3
Net assets (Shareholder's equity)	11,362,429.0	2,192,059.0	13,554,488.0
<u>Cangnan Second Nuclear Power</u>			
Current assets	262,745.3	—	262,745.3
Non-current assets	9,895,853.4	237,582.9	10,133,436.3
Included: Fixed assets	3,512.7	(0.7)	3,513.4
Construction in progress	8,128,082.0	234,723.9	8,362,805.9
Right-of-use assets	183.4	—	183.4
Intangible assets	350,780.5	2,858.3	353,638.8
Long-term deferred expense	928,718.7	—	928,718.7
Other non-current assets	484,576.1	—	484,576.1
Total assets	10,158,598.7	237,582.9	10,396,181.6
Current liabilities	3,193,792.4	—	3,193,792.4
Non-current liabilities	3,813,066.3	—	3,813,066.3
Total liabilities	7,006,858.7	—	7,006,858.7
Net assets (Shareholder's equity)	3,151,740.0	237,582.9	3,389,322.9

Details of the key assets and liabilities of the Target Companies based on the asset-based approach valuation are set out below:

i. Fixed Assets

a. Buildings

Based on the purpose of the valuation, valuation subject, type of value, availability of information and other circumstances, different valuation approaches are adopted for the buildings (structures) owned by the appraised entity.

For purchased properties, the market approach is used taking into account their characteristics, intended use, information availability, and the active level of market transactions in their locations. In arriving at the valuation, the Valuer has identified comparable properties and made adjustments based on transaction status, transaction time, regional factors and other individual factors.

b. Machineries and equipment

For machineries and equipment, based on the purpose of the valuation and type of value, and in accordance with the principle of continuous use and based on the market price, taking into account the characteristics of the equipment to be appraised and the information collected, the replacement cost approach is primarily adopted in the valuation. The replacement cost approach takes the full cost of reacquiring or constructing the appraised asset in its new condition, less the physical, functional, and economic obsolescence that occurred on the appraised asset, and uses the difference as the appraised value of the appraised asset.

ii. Construction in progress

The construction in progress included in the scope of valuation includes various upfront cost, project commencement fee, construction fee and administrative fee etc. The Valuer verifies the composition of carrying value through communication with officers from financial, investment and engineering departments of the Target Companies, and review of relevant accounting books, certificates, contracts, payment invoices and other information. The verified actual prepayment are used as the basis for recalculating the cost of capital to determine the appraised value.

iii. Intangible assets

The intangible assets mainly included land use rights, the sea area use rights (海域使用權), software purchased and intellectual property.

For land use rights, on the basis of on-site inspection and relevant market research, taking into account the location of land to be appraised, land usage, usage conditions, local land market, available information and the applicability of relevant valuation methods, the Valuer adopts (i) replacement cost approach on parcels with comparable land expropriation compensation cases, with relevant tax and fee standards and other parameters readily available for reference; and (ii) market approach on parcels with comparable transactions in the same area as appraised parcel but without obtainable comparable land expropriation compensation cases, with relevant tax and fee standards and other parameters readily available for reference.

For the sea area use rights (海域使用權), the lack of a mature trading market for sea area use rights in Cangnan County and the lack of recent transaction cases in relation to sea area use right of the same type of sea area as the appraised subject within the supply-demand zone, market comparison approach is inappropriate for valuation. As the sea area to be appraised is for industrial use and cannot generate income separately, both income capitalization approach and residual approach are inappropriate for valuation. Upon the Valuer's inspection, it is understood that the acquisition cost and various expenses for the sea area to be appraised can be obtained in a reasonable way. Hence, the cost approximation approach is adopted by the Valuer.

For purchased software, valuation is conducted using market approach based on relevant conditions such as characteristics of other intangible assets, type of appraised value and information availability.

For intellectual properties, it refers to technology invent and develop by the project company as the principal. Expenses on relevant matters are not calculated separately, included in the carrying value of construction in progress, and cannot be separated from historical costs. Hence, cost approach has been adopted by the Valuer for the valuation of the intellectual properties based on the actual condition of the project, i.e. value of intellectual properties shall be deemed as equivalent to its R&D cost, with value included in construction in progress.

iv. Long-term deferred expense

For other long-term deferred expense, which mainly comprise of construction fees of the Cangnan Phase II Project Water Supply Project, the 228 National Highway and the Lingsha Highway and costs incurred in the construction of water supply projects to safeguard water provision. The Valuer investigated the reason of the occurrence of long-term deferred expense, and reviewed relevant accounting records, supporting vouchers and contracts to verify the amortisation period, amortisation amount and book value. The valuer used the carrying amount as the valuation reference.

v. *Other non-current assets*

For other non-current assets, which mainly comprise of reclassified prepayments for construction and equipment and pending deductible input value added tax, the Valuer interviewed relevant personnel of the Target Companies to understand the nature and accounting treatments of its other non-current assets. Through the review of ledgers and accounting vouchers, the Valuer identified the applicable tax categories, tax rates, and relevant tax policies borne by the Target Companies, and performed sample checks on the relevant contracts in accordance with the principle of materiality.

For prepayments under which the Target Companies are entitled to receive corresponding goods or realise specific rights as stipulated in the contracts, the appraised value was determined based on the verified book value. Similarly, for items such as pending deductible input value-added tax, the verified book value was also adopted as the appraised value.

vi. *Liabilities*

As of the Valuation Benchmark Date, the Target Companies' liabilities included short-term borrowings, accounts payable, employee compensation payable, taxes payable, other payables, non-current liabilities due within one year, long-term borrowings and lease liabilities. The Valuer had verified the book value based on the details and relevant financial information provided by the Target Companies.

Having discussed with the Valuer and reviewed the details of the Valuation Report, we consider the methodologies used for each component constituting the Adjusted NAV are appropriate and align with normal market practice:

Fixed assets

For purchased properties, we consider the use of market approach modified by factors such as situation of the transaction, transaction date and conditions of the property is appropriate and is consistent with normal market practice. We have obtained and reviewed the list of comparable transactions adopted by the Valuer in conducting the valuation of the purchased properties. We note that the comparable transactions are located in the same area to the assessed properties, and the transaction dates are within same month from the valuation date. Taking into account of the above, we consider the comparable transactions adopted by the Valuer are appropriate.

For machinery and equipment, we consider the replacement cost method is appropriate for machinery and equipment where direct comparables are lacking; we have examined the detailed variables adopted by the Valuer, including the replacement cost and the newness rates, and consider that they are consistent with market practise. The Valuer assessed the comprehensive newness rates of the equipment based on the service life method, having considered the estimated remaining useful life and their field inspection result. As a result, the newness rates of the equipment range from 48% (being oldest assets) to 99% (being newest assets). Based on our review of the Valuation Report and the underlying service/use history of the equipment and the Valuer's field inspection records provided to us, we noted that the adopted rates were consistent with such service/use history. Accordingly, we consider the comprehensive newness rates adopted by the Valuer to be fair and reasonable.

Construction in
progress

We consider the verification against records/contracts/paid progress payments and a prudence-based recalculation of fund costs using reasonable schedules and interest parameters – aggregating EPC turnkey items not yet finally settled – are reasonable for long-cycle nuclear projects and support the observed appraised uplifts for Cangnan Phase I Project and Cangnan Phase II Project.

We also reviewed the two-stage approach adopted by the Valuer to calculate the financing costs for construction in progress due to the long cycle of nuclear projects and significant variances in investment amounts across different construction stages to be effective in preventing material distortions in the final valuation. Specifically for the Cangnan Phase I Project, the use of the FCD as the cut-off is appropriate to avoid material deviation in calculating the capital expenditure of the project. For the Cangnan Phase II Project, we are of the view that using the establishment date as the cut-off is appropriate for projects that have not commenced FCD.

Intangible assets

For land use rights with comparable land expropriation compensation cases, with relevant tax and fee standards and other parameters readily available for reference, the use of replacement cost method, is appropriate and is consistent with normal market practice. In contrast, the benchmark land price correction method is not adopted by the Valuer, as a complete benchmark land price adjustment system is not available.

For land use rights with no available comparable land expropriation compensation cases, with relevant tax and fee standards and other parameters readily available for reference, the use of market approach, taking into account of the location, size, usage conditions and other relevant factors is appropriate and is consistent with normal market practice. We have obtained and reviewed the list of comparable transactions adopted by the Valuer in conducting the valuation of the purchased properties and note that the assessed properties are located in the same area as the assessed land, and the transaction dates are within 3 years from the valuation date. Taking into account of the above, we consider the comparable transaction selected by the Valuer are reasonable. We are also advised by the Valuer that the comparable used are independent from the Company.

For sea area use rights with limited marketability and no standalone income, a cost-approximation method adjusted under the Technical Specification for Sea Area Price Assessment for development interests, profit and value-added income is a recognised surrogate where market and income methods are inapplicable, consistent with the premia over one-off royalty book values in the reports. We have reviewed the Valuer's adjustment to the sea area use rights and note that the adjustment was made with reference to the remaining term of the relevant sea area use rights. On this basis, we consider the adjustment adopted by the Valuer to be fair and reasonable.

For purchased software, market benchmarking against prevailing licence pricing and obtaining vendor/developer quotation is reasonable, particularly given the specialised nature of the Target Companies' industry and the bespoke design of the systems. In this regard, we have reviewed the updated price quotation provided by the original vendor/developer of the respective software and compared it against the valuation prepared by the Valuer. We note that the quoted price is in line with the Valuer's valuation.

For proprietary intellectual properties without observable comparables and with R&D embedded in CIP, a cost approach on a continued-use premise is acceptable within the asset-based framework.

Long-term deferred expense	For long-term deferred expense, asset-based approach was appropriate with amortization period determined primarily based on the length of time over which the long-term deferred expenses are expected to contribute and generate benefits is consistent with market practice.
Other non-current assets and liabilities	For other non-current assets and liabilities (including right-of-use assets and interest-bearing debts), the verification and carryover of book amounts where appropriate accord with an asset-based approach and the stated general and special assumptions.

Based on our review of the foregoing, no matters have come to our attention that cause us to question the appropriateness of the methodologies or the resulting appraised values. We are therefore of the view that the methodologies adopted by the Valuer are fair and reasonable, and, considering our other assessments of the Valuer's scope of work and qualifications and our independent cross-checks as set out below, we consider that the appraised value is no less favourable to the Company than would reasonably be expected under normal market conditions.

We note that the consideration of the Acquisition represents a slight premium over the pro rata Appraised Value of the equity interests in the Target Companies to be acquired by the Company, as determined in the Independent Valuation. As discussed in the Letter from the Board, such difference mainly arises from the adjustment made to reflect the status of the registered capital of the Target Companies. As at the Valuation Benchmark Date, the registered capital of the Target Companies had not been fully paid up by their shareholders. The Independent Valuation assessed the value of the Target Companies at the company level based on their existing asset and liability position, and did not adjust for the allocation of the subscribed but unpaid registered capital among the relevant shareholders.

Having considered the explanation in the Letter from the Board, we understand that the unpaid registered capital was first added back because it represents the Target Companies' right to require their shareholders to pay in such capital, and that the unpaid capital contribution attached to the equity interests to be acquired was then deducted because it would remain payable by the buyer after completion, provided that the seller has made the contribution during the transition period. We consider this approach is reasonable as the addition reflects the value of the Target Companies' right to receive the unpaid registered capital, while the deduction reflects the capital contribution obligation attached to the equity interests to be acquired. Based on our review and for the reasons set out above, we consider the adjustment mechanism adopted by the Company to be fair and reasonable so far as the Shareholders are concerned.

For the purpose of further assessing the result of the Independent Valuation prepared by the Valuer, we have undertaken a cross-check by reviewing valuation multiples of comparable companies principally engaged in the nuclear power generation business and listed in Hong Kong or mainland China (the "**Comparable Companies**"). We note that the Company and China National Nuclear Power Co., Ltd. ("**CNNPC**", 601985.SH), a subsidiary of China National Nuclear Corporation ("**CNNC**"), are, on an exhaustive basis, the only two publicly listed companies in these markets principally engaged in nuclear power generation with operations and asset bases comparable to the Target Companies.

As the Comparable Companies are listed entities and differ from the Target Companies in terms of asset portfolios, capital structures, liquidity profiles and applicable regulatory frameworks, their trading multiples are not directly comparable to the Target Companies or the relevant nuclear power plants/projects. Accordingly, we have considered such multiples as supplementary reference only. In assessing the fairness and reasonableness of the consideration of the acquisition, we have placed primary reliance on our review of the Independent Valuation prepared by the Valuer using the asset approach, including the methodology adopted, key assumptions and principal valuation inputs. The Comparable Companies analysis is therefore included to provide additional context to the Independent Shareholders and to serve as a high-level cross-check of the result of the Independent Valuation.

Given that the consideration for the Acquisition pertains to assets which had not commenced commercial operations during the latest full financial year under review, we consider price-to-earnings ("**P/E**") ratios to be inappropriate for cross-checking purposes. Instead, we emphasise the price-to-book ("**P/B**") ratio as a more relevant metric in evaluating investment value given the capital-intensive nature of the business and accounting for developmental stage. Below set out the calculation of the P/B ratio of the Comparable Companies and the calculation of the implied P/B ratio for the Transaction:

Company name	Stock code	Company description	As at the Latest Practicable Date		
			Market	NAV attributable	P/B ratio
			capitalisation	to Shareholders	
			(RMB' Million)	(RMB' Million)	(Note 1)
CGN Power Co., Ltd.	1816.HK/ 003816.SH	CGN Power Co., Ltd. operates and manages nuclear power generating stations. The company operate and manages nuclear power stations, sell electricity, nuclear power stations construction manages, and other services.	221,057	125,919	1.76x

China National Nuclear Power Co., Ltd.	601985.SH	China National Nuclear Power Co., Ltd. is a nuclear energy power producer. The company invests in, constructs, manages and operates nuclear power plants throughout China.	189,020	119,976	1.58x
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The Acquisition	Consideration (RMB' Million)	Appraised Value (RMB' Million)	Implied P/B ratio – Appraised Value basis (Note 2)
	8,347	7,964	1.05x

The Acquisition	Consideration (RMB' Million)	Original Book Value (RMB' Million)	Implied P/B ratio – net book value basis (Note 3)
	8,347	6,834	1.22x

Source: Bloomberg and Valuation Reports

Notes:

1. The P/B ratio of the Comparable Companies is calculated by way of dividing the market capitalisation by the latest published NAV attributable to Shareholders of the relevant companies on the Latest Practicable Date as extracted from Bloomberg.
2. The implied P/B ratio – Appraised Value basis of the Acquisition is calculated by way of dividing the consideration of the Acquisition by the Appraised Value of the Target Companies as at the Valuation Benchmark Date.
3. The implied P/B ratio – net book value basis of the Acquisition is calculated by way of dividing the consideration of the Acquisition by the sum of audited net book values of the Target Companies before appraisal.

Based on the latest available financial statements and closing prices as of Latest Practicable Date, the P/B ratios for the Company and CNNPC are approximately 1.76x and 1.58x, respectively. As the consideration for the Acquisition has been determined with reference to the Appraised Value of the Target Companies, which was assessed under the asset-based approach and represents the fair value of the net assets of the Target Companies, we note that the implied P/B ratio for the Acquisition is effectively 1.05x, mainly due to the adjustment made by the Company to reflect the status of the registered capital as stated above. Should we use sum of the audited net book values of the Target Companies before appraisal, the implied P/B would be 1.22x. Both implied P/B multiple are therefore below the levels observed for these Comparable Companies, indicating a valuation that is conservative relative to market benchmarks, and the Consideration reflects the appraised fair value of the underlying net assets without significant premium. Given (i) the limited number of Comparable Companies; and (ii) the business nature of the Company and CNNPC as compared with the Target Companies as a whole, we consider the Company and CNNPC are fair and representative samples for the purpose of providing additional information to the Independent Shareholders and as an alternative assessment to cross-check the result of the valuation.

It is important for the Independent Shareholders to note that (i) the business and financial aspects and prospects of the Target Companies, the Company and CNNPC may not be identical; and (ii) the number of market comparable companies is limited, therefore the price ratio analysis is only for completeness and as an additional reference for the Independent Valuation, where the primary reference of the consideration for the Acquisition shall be the Independent Valuation, given the Independent Valuation is prepared by an independent professional valuer has taken into account the individual circumstances of each of the Target Companies.

Taking into account the above work and steps we have conducted in relation to the relevant Valuation Report, including but not limited to (i) interviewing the Valuer as to its expertise and its independence; (ii) reviewing the terms of engagement of the Valuer and assessing the appropriateness of its scope of work; (iii) review and assessment on the reasonableness of the valuation methodologies, basis and assumptions being adopted in the Valuation Report; and (iv) cross-checking of the Independent Valuation and consideration for the Acquisition through our independent research as discussed above; we consider the consideration for the Acquisition is fair and reasonable, and the Appraised Value is no less favourable to the Company than could reasonably be expected under normal market conditions.

RECOMMENDATION

Having considered the above, we are of the opinion that the Share Transfer Agreement and the Acquisition are in the interests of the Company and the Shareholders as a whole. We are also of the opinion that the terms of the Share Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Acquisition at the EGM.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited



Brandon Li
Director



Alex Wang
Assistant Director

Mr. Brandon Li is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 12 years of experience in corporate finance.

Mr. Alex Wang is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 7 years of experience in corporate finance.