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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China HK Power Smart Energy Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or transferee(s).

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**CHINA HK POWER SMART ENERGY GROUP LIMITED**

**中國港能智慧能源集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 931)**

**(1) CONNECTED TRANSACTION  
LOAN CAPITALISATION INVOLVING ISSUE OF  
NEW SHARES UNDER SPECIFIC MANDATE  
AND  
(2) NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

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



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Capitalised terms used on this cover page have the same meaning as defined in the section headed “Definitions” in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 4 to 13 of this circular.

A notice convening the EGM to be held on Friday, 19 April 2024 at 5:00 p.m. at 8th Floor, St. John’s Building, 33 Garden Road, Central, Hong Kong is set out on pages 42 to 43 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company’s Hong Kong branch share registrar and transfer office, Tricor Standard Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

27 March 2024

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 7 March 2024 in relation to the Loan Capitalisation
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Business Day(s)”	day(s) (excluding Saturdays) on which banks are generally open for normal banking business in Hong Kong
“Board”	the board of Directors
“Capitalisation Price”	HK\$0.43 per Capitalisation Share
“Capitalisation Shares”	697,674,419 Shares to be allotted and issued to the Subscriber by the Company at the Capitalisation Price pursuant to the Loan Capitalisation Agreement, each a Capitalisation Share
“Company”	China HK Power Smart Energy Group Limited (stock code: 931), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the allotment and issue of the Capitalisation Shares
“Completion Date”	the date of Completion
“connected person(s)”	has the meanings as ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meanings as ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Kan” or “Subscriber”	Dr. Kan Che Kin, Billy Albert, the chairman of the Board and an executive Director and a substantial shareholder holding 55.78% of the total issued share capital of the Company as at the Latest Practicable Date
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and approve, if thought fit, the Loan Capitalisation and the transactions contemplated thereunder and the grant of the Specific Mandate to allot and issue the Capitalisation Shares

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## DEFINITIONS

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“General Mandate”	the general mandate granted to the Directors pursuant to the ordinary resolution of the Shareholders passed at the annual general meeting of the Company held on 25 August 2023, which allowed the Directors to allot, issue and/or deal with up to 1,128,759,418 Shares, representing 20% of the total number of issued Shares as of the date on which such general mandate was granted
“Ground Up”	Ground Up Profits Limited, a company incorporated in the Hong Kong with limited liability and wholly-owned by Dr. Kan, the controlling shareholder of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors
“Independent Financial Adviser”	Optima Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholder(s) other than those who are required under the Listing Rules to abstain from voting on the resolution(s) to be proposed at the EGM
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) who are third parties independent of the Company and the connected persons of the Company in accordance with the Listing Rules
“Last Trading Day”	6 March 2024, being the last full trading day on which the Shares were traded on the Stock Exchange immediately prior to the date of the Loan Capitalisation Agreement
“Latest Practicable Date”	20 March 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Loan Capitalisation”	conversion of the Repayment Amount into the share capital of the Company by applying the Repayment Amount in payment of the subscription amount credited as fully paid to the Subscriber under the Loan Capitalisation Agreement
“Long Stop Date”	the date upon the expiry of three (3) months from the date of the Loan Capitalisation Agreement, or such other date as the parties may agree in writing
“Mr. Li”	Mr. Li Kai Yien, Arthur Albert, being an executive Director and the nephew of Dr. Kan, who beneficially owns 200,000 Shares, representing less than 0.01% of the issued share capital of the Company as at the Latest Practicable Date
“PRC”	the People’s Republic of China which, for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Repayment Amount”	being the agreed amount for Loan Capitalisation under the Loan Capitalisation Agreement, including all of the interest accrued for Shareholder’s Loans as at the date of the Loan Capitalisation Agreement and partial outstanding Shareholder’s Loan principals in an aggregated amount of HK\$300,000,000 that the Group due to the Subscriber
“Share(s)”	ordinary share(s) of nominal value of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder’s Loan(s)”	the unsecured loans due from the Group to the Subscriber, bearing an interest rate of 5% per annum (except during the interest-free period for certain loans), the aggregated outstanding principal and accrued interest of which amounted to approximately HK\$718.17 million as at the date of the Loan Capitalisation Agreement
“Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the EGM and to be granted to the Board for the allotment and issue of the Capitalisation Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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## LETTER FROM THE BOARD

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### CHINA HK POWER SMART ENERGY GROUP LIMITED

### 中國港能智慧能源集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 931)**

*Executive Directors:*

Dr. Kan Che Kin, Billy Albert (*Chairman*)  
Mr. Deng Yaobo (*Chief executive officer*)  
Mr. Li Kai Yien, Arthur Albert

*Non-executive Director:*

Mr. Simon Murray

*Independent Non-executive Directors:*

Mr. Li Siu Yui  
Mr. Chow Ching Ning  
Mr. Lam Lum Lee

*Registered Office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Head Office and Principal Place of  
Business in Hong Kong:*

8th Floor, St. John's Building  
33 Garden Road  
Central  
Hong Kong

27 March 2024

*To the Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION  
LOAN CAPITALISATION INVOLVING ISSUE OF  
NEW SHARES UNDER SPECIFIC MANDATE  
AND  
(2) NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

#### **I. INTRODUCTION**

Reference is made to the Announcement of the Company dated 7 March 2024 in relation to, among other things, the Loan Capitalisation.

The purpose of this circular is to provide you with, among other things, (i) details of the Loan Capitalisation Agreement and the transactions contemplated thereunder; (ii) recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Loan Capitalisation Agreement and the transactions contemplated thereunder; and (iv) a notice of the EGM.

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## LETTER FROM THE BOARD

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### II. THE LOAN CAPITALISATION AGREEMENT

On 7 March 2024 (after the Stock Exchange trading hours), the Company (as issuer) and Dr. Kan (as Subscriber) entered into the Loan Capitalisation Agreement, pursuant to which the parties conditionally agreed that the Subscriber shall subscribe for, and the Company shall allot and issue, a total of 697,674,419 Capitalisation Shares at the Capitalisation Price of HK\$0.43 per Capitalisation Share. The aggregate Capitalisation Price of all Capitalisation Shares payable by the Subscriber shall be satisfied by capitalising and setting off against the Repayment Amount of HK\$300,000,000 upon Completion.

The Shareholder's Loans have been provided by the Subscriber to the Group from time to time since January 2018 for the purpose of financing its general working capital requirement and business development. As at the date of the Loan Capitalisation Agreement, the Shareholder's Loans amount to approximately HK\$718.17 million, which comprise outstanding principal amount of approximately HK\$632.25 million and accrued interest of approximately HK\$85.92 million. All of the Shareholder's Loans are unsecured and bear interest at the rate of 5% per annum (except during the interest free period for certain loans).

The Repayment Amount to be set off will include all the interest accrued for the Shareholder's Loans as at the date of the Loan Capitalisation Agreement of HK\$85.92 million, the five interest-free Shareholder's Loans in an aggregate amount of HK\$146.88 million with repayment dates before the end of 2024 and HK\$67.2 million certain other Shareholder's Loan principals currently repayable on demand.

#### The Loan Capitalisation Agreement

The principal terms of the Loan Capitalisation Agreement are as follows:

Date: 7 March 2024 (after the Stock Exchange trading hours)

Parties: (1) the Company (as the issuer); and  
(2) Dr. Kan (as the Subscriber).

#### Number of Capitalisation Shares

The Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, a total of 697,674,419 Capitalisation Shares. The Capitalisation Shares represent (i) approximately 11.67% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 10.45% of the total number of issued Shares as enlarged by the allotment and issue of the Capitalisation Shares, assuming that there will be no changes in the total number of issued Shares between the Latest Practicable Date and the Completion Date.

Based on the closing price of the Shares of HK\$0.42 per Share on the Last Trading Day, the Capitalisation Shares have a market value of approximately HK\$293,023,256 and an aggregate nominal value of approximately HK\$13,953,488.

The Capitalisation Shares to be issued and allotted to the Subscriber will be allotted and issued under the Specific Mandate to be obtained at the EGM.

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## LETTER FROM THE BOARD

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### Capitalisation Price

The Capitalisation Price of HK\$0.43 per Capitalisation Share represents:

- (i) no premium over or discount to the closing price of HK\$0.43 per Share as quoted on the Stock Exchange on 7 March 2024, the date of the Loan Capitalisation Agreement;
- (ii) a premium of approximately 1.42% to the average closing price per Share of HK\$0.424 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement;
- (iii) a premium of approximately 1.54% to the average closing price per Share of HK\$0.4235 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement; and
- (iv) a premium of approximately 3,207.69% to the Company's unaudited consolidated net asset value per Share as at 30 September 2023 of approximately HK\$0.013 (calculated by equity attributable to the Shareholders of approximately HK\$77,686,000 as at 30 September 2023 and 5,976,355,230 Shares in issue as at the date of the Loan Capitalisation Agreement).

The amount of the total Capitalisation Price of approximately HK\$300,000,000 shall be satisfied by way of capitalising and setting off against the Repayment Amount. The professional fees and related expenses for the Capitalisation, which amount to approximately HK\$0.15 million (representing approximately 0.05% of the aggregate Capitalisation Price), will be settled by the Company in cash.

The Capitalisation Price was arrived at on an arm's length basis between the Company and the Subscriber after taking into account the recent trading performance of the Shares, the recent market conditions, the current financial position and the business prospects of the Group.

In view of the above, the Directors (including the independent non-executive Directors but excluding the Subscriber who is considered to have material interest and Mr. Li who is considered to be an associate of the Subscriber respectively, in the transactions contemplated under the Loan Capitalisation Agreement) consider that the Capitalisation Price are fair and reasonable.

### Conditions Precedent

Completion is conditional upon the following conditions being fulfilled or waived (if applicable):

- (i) the Board having passed and approved the Loan Capitalisation Agreement and the transactions contemplated thereunder;
- (ii) the Independent Shareholders having approved and passed at the EGM, of the necessary resolutions to approve the Loan Capitalisation Agreement and the transaction contemplated thereunder (including but not limited to the grant of the Specific Mandate for the allotment and issuance of the Capitalisation Shares);



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## LETTER FROM THE BOARD

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- (iii) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Capitalisation Shares and such approval and permission having not subsequently been revoked or withdrawn prior to the commencement of dealings in the Capitalisation Shares on the Stock Exchange;
- (iv) the representations and warrants given by the parties under the Loan Capitalisation Agreement being true and accurate and not misleading when made and remaining true and accurate and not misleading until the date of completion; and
- (v) all necessary consents and approvals required to be obtained on the part of the Company in respect of Loan Capitalisation Agreement and the transactions contemplated thereunder having been obtained.

Save for condition (iv) above which can be waived by the Subscriber by notice in writing to the Company, none of the above conditions may be waived by the Company or the Subscriber. If the conditions set out above are not fulfilled on or before the Long Stop Date, the Loan Capitalisation Agreement shall terminate and neither of the parties shall have any claim against the other for costs, damages, compensation or otherwise save for any antecedent breach of such Loan Capitalisation Agreement.

As at the Latest Practicable Date, except condition (i) which has been fulfilled, none of the other conditions set out above has been fulfilled. In terms of condition (iii), application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares.

### **Completion**

Completion shall take place on or before the tenth (10) business day following the day upon which the conditions precedent have been satisfied (or such later date as may be agreed between the Company and the Subscriber in writing).

At Completion, the Company will allot and issue 697,674,419 Capitalisation Shares to the Subscriber, and the Subscriber will pay to the Company the Capitalisation Price satisfied by way of offsetting the Repayment Amount, upon which the Repayment Amount shall be deemed to have been fully repaid.

### **Ranking of the Capitalisation Shares**

The Capitalisation Shares when allotted and issued, shall rank *pari passu* in all respects among themselves free from all liens, charges, guarantee, adverse interests and adverse claims, and with the Shares in issue on the date of allotment and issue of the Capitalisation Shares including all dividends declared or payable or distribution made or proposed on or after the Completion Date.

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## LETTER FROM THE BOARD

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### III. INFORMATION ON THE PARTIES

#### The Company and The Group

The Company is an investment holding company. The Group is principally engaged in the sales and distribution of natural gas and the provision of financial services business. The business of the Group has expanded into new energy business recently, focusing on the key areas of overall energy supply structure, energy usage and recovery which include smart heating, building energy efficiency, industrial energies, energy and carbon trading, energy storage and digital intelligence integration.

#### The Subscriber

As at the Latest Practicable Date, the Subscriber is the chairman of the Board, an executive Director and the controlling shareholder of the Company who beneficially owns 3,333,503,139 Shares, representing approximately 55.78% of the issued share capital of the Company. Therefore, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules.

### IV. REASONS FOR AND BENEFITS OF THE LOAN CAPITALISATION

As disclosed in the interim report of the Company for the six months period ended 30 September 2023, the gearing ratio of the Company was 644.8%, calculated by dividing the interest-bearing debts by total equity. As at 30 September 2023, the Group's interest-bearing borrowings amounted to approximately HK\$617.7 million, which comprised bank borrowings of approximately HK\$106.2 million and outstanding principal of the Shareholder's Loans of approximately HK\$511.47 million. Interest accrued for the Shareholder's Loans as at 30 September 2023 amounted to approximately HK\$77.5 million. Moreover, the cash and cash equivalents of the Group as at 30 September 2023 amounted to approximately HK\$53.73 million. As at the date of the Loan Capitalisation Agreement, the Shareholders' Loans further increased to approximately HK\$718.17 million in outstanding principal amount and accrued interest.

Given the financial positions of the Group, the Group is not able to repay the amount due to the Subscriber with the existing financial resources. Capitalisation of the Repayment Amount enables the Group to setting off part of its existing liabilities without utilising the existing financial resources and can avoid cash outflows. Furthermore, the capitalisation of the Repayment Amount reduces the indebtedness level of the Company and broadens its capital base.

The Directors have considered other alternative means for raising funds to settle the Shareholder's Loans, such as bank borrowings, share placement, rights issue or open offer. However, having taken into account that:

- (i) debt financing and bank borrowing will inevitably increase the gearing ratio of the Group and lenders generally require pledge of assets from the borrower;
- (ii) the capitalisation of the Repayment Amount under the Loan Capitalisation Agreement will reduce the indebtedness of the Group;

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## LETTER FROM THE BOARD

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- (iii) other equity financing such as placing of new shares, rights issue and open offer usually require attractive discount to the prevailing market price of the Shares and is relatively more time consuming and less cost effective as compared to the Loan Capitalisation;
- (iv) the Capitalisation Price represents a slight premium over the average market price of the Shares for the last ten consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement; and
- (v) the Loan Capitalisation demonstrates the support and solid confidence given by the Subscriber to the Group.

Accordingly, taking into account the existing financial performance and financial position of the Group, the Directors consider that Loan Capitalisation will allow the Company to partially settle the Shareholder's Loans (together with the accrued interest) without obtaining additional bank borrowing and incurring additional finance costs nor utilising the existing financial resources of the Group which could otherwise be retained for general working capital and business development, while improving the gearing level and hence strengthening the financial position of the Group.

Although the allotment and issue of the Capitalisation Shares will have a dilution effect to the existing Independent Shareholders, having considered (i) the capitalisation of the Repayment Amount can alleviate the repayment and settlement pressure of the Group; and (ii) the Capitalisation Shares, when allotted and issued, will be recognised entirely as equity of the Company which in turn will reduce the gearing ratio, enlarge the capital base and enhance the net asset position of the Group, the Directors are of the view that the dilution effect arising from the allotment and issue of the Capitalisation Shares is justifiable in this regard.

While the Subscriber has expressed to the Company his intention to capitalise the Repayment Amount and increase his equity investment in the Company given his confidence in the Group's future business performance, the Company considers that the Capitalisation of Shares by the Subscriber, being an executive Director and the controlling shareholder of the Company, reflects the confidence of the Subscriber towards the long-term and sustainable growth of the Group, and the continuing support of the Subscriber would be beneficial to the long term business development of the Group.

In view of the above, the Directors (including the independent non-executive Directors but excluding the Subscriber who is considered to have material interest and Mr. Li who is considered to be an associate of the Subscriber respectively, in the transactions contemplated under the Loan Capitalisation Agreement) consider that the terms of the Loan Capitalisation Agreement are fair and reasonable based on the current market conditions and are on normal commercial terms, accordingly, the Loan Capitalisation is in the interest of the Company and the Shareholders as a whole.

### **Use of Proceeds**

As the Capitalisation Price will be satisfied by way of offsetting the Repayment Amount, there will be no remaining net proceeds from the allotment and issue of the Capitalisation Shares available to be utilised by the Company.

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## LETTER FROM THE BOARD

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### V. EQUITY FUND RAISING OF THE COMPANY DURING THE PAST TWELVE MONTHS

On 29 September 2023, the Company issued an aggregate of 100,000,000 new Shares at the subscription price of HK\$0.39 per Share, with an aggregate subscription amount of HK\$39 million to one subscriber. The Company received net proceeds of approximately HK\$38.89 million from the subscription, which has been fully utilised as planned and applied as to the Group's general working capital. For details, please refer to the announcements of the Company dated 20 September 2023 and 29 September 2023.

On 2 February 2024, the Company allotted and issued 232,558,140 initial consideration Shares under the General Mandate at the consideration price of HK\$0.43 each for the acquisition of the entire issued share capital in a target company in the amount of approximately HK\$100 million. For details, please refer to the announcement of the Company dated 21 December 2023 and 2 February 2024, and the circular of the Company dated 16 January 2024.

Saved as disclosed above, the Company had not conducted any equity fundraising activities in the past twelve months immediately preceding the date of the Announcement.

### VI. APPLICATION FOR LISTING OF THE CAPITALISATION SHARES

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares.

### VII. CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and the allotment and issue of the Capitalisation Shares as contemplated under the Loan Capitalisation (assuming there are no other changes to the issued share capital of the Company between the Latest Practicable Date and the Completion Date save for the allotment and issue of the Capitalisation Shares and the Subscriber will not hold any other Shares save for the Capitalisation Shares on the Completion Date):

Name of Shareholders	As at the Latest Practicable Date		Immediately after the allotment and issue of the Capitalisation Shares	
	No. of Shares	Approximate % shareholding	No. of Shares	Approximate % shareholding
Directors:				
Dr. Kan ( <i>Note i</i> )	3,333,503,139	55.78%	4,031,177,558	60.40%
Mr. Li	200,000	0.01%	200,000	0.01%
Sunland Limited ( <i>Note ii</i> )	116,279,070	1.95%	116,279,070	1.74%
Old Boy Limited ( <i>Note ii</i> )	116,279,070	1.95%	116,279,070	1.74%
Other Public Shareholders	2,410,093,951	40.31%	2,410,093,951	36.11%
	<u>5,976,355,230</u>	<u>100.00%</u>	<u>6,674,029,649</u>	<u>100.00%</u>

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## LETTER FROM THE BOARD

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*Notes:*

- (i) 5,000,000 shares among these Shares are held by Ground Up, Dr. Kan beneficially owns the entire issued share capital of Ground Up, therefore he is deemed to be interested in all the Shares held by Ground Up by virtue of the SFO. Dr. Kan is the chairman of the Board and an executive Director, Dr. Kan is also a director of Ground Up; and
- (ii) The aggregate of 232,558,140 shares represents initial consideration shares that have been allotted and issued under the General Mandate for a major acquisition, pursuant to the sale and purchase agreement dated 21 December 2023 entered into between the Company and Sunland Limited and Old Boy Limited.

### VIII. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Subscriber is the chairman of the Board, an executive Director and the controlling shareholder of the Company who beneficially owns 3,333,503,139 Shares, representing approximately 55.78% of the issued share capital of the Company, and hence a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Loan Capitalisation Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Dr. Kan (chairman of the Board and an executive Director), being the Subscriber, is considered to have material interest, and Mr. Li (an executive Director and the nephew of Dr. Kan) is considered to be an associate of the Subscriber, in the transactions contemplated under the Loan Capitalisation Agreement. Therefore, Dr. Kan and Mr. Li had abstained from voting on the relevant resolution(s) of the Board. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, none of the other Directors has any material interest in the Loan Capitalisation Agreement and the transactions contemplated thereunder or is otherwise required to abstain from voting on the relevant resolution(s) of the Board.

### IX. ESTABLISHMENT OF THE INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been established to give a recommendation to the Independent Shareholders as to (i) whether the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder are on normal commercial terms or better, (ii) whether or not they are in the ordinary and usual course of business of the Group; (iii) whether they are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and (iv) how to vote at the EGM. Optima Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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## LETTER FROM THE BOARD

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### X. EGM

The EGM will be convened and held on Friday, 19 April 2024 at 5:00 p.m. at 8th Floor, St. John's Building, 33 Garden Road, Central, Hong Kong for the purpose of considering and, if thought fit, approving the Loan Capitalisation Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate for the allotment and issue of the Capitalisation Shares.

Set out on pages 42 to 43 of this circular is a notice convening the EGM to consider and, if appropriate, to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate for the allotment and issue of the Capitalisation Shares. A form of proxy for use by the Shareholders at the EGM or any adjourned meeting is also enclosed herewith.

Whether or not you intend to attend and/or vote at the EGM in person, you are requested to complete the form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, the resolution set out in the notice of the EGM will be voted by poll.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the transaction and his associates will abstain from voting on the relevant resolutions at the EGM. Accordingly, (i) the Subscriber, being the chairman of the Board, an executive Director and the controlling shareholder of the Company who beneficially owns 3,333,503,139 Shares, representing approximately 55.78% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) Mr. Li, who beneficially owns 200,000 Shares, representing less than 0.01% of the issued share capital of the Company as at the Latest Practicable Date, being an executive Director and the nephew of Dr. Kan, is considered to be an associate of the Subscriber, will be required to abstain from voting on the resolution(s) to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder at the EGM, including the grant of the Specific Mandate. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, other than the Subscriber and Mr. Li, no other Shareholder has a material interest in the transactions contemplated under the Loan Capitalisation Agreement, including the grant of the Specific Mandate, and will be required to abstain from voting on the resolution(s) to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder and the grant of the Specific Mandate to the Directors for the allotment and issue of the Capitalisation Shares to the Subscriber at the EGM.

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## LETTER FROM THE BOARD

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### XI. CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 16 April 2024 to Friday, 19 April 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 April 2024.

### XII. RECOMMENDATION

The Directors (including the independent non-executive Directors but excluding the Subscriber who is considered to have material interest and Mr. Li who is considered to be an associate of the Subscriber respectively, in the transactions contemplated under the Loan Capitalisation Agreement) consider that the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable, on normal commercial terms, and although not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned, and recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

### XIII. GENERAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and additional information of the Group set out in the appendix to this circular.

**Completion of the Loan Capitalisation is subject to the satisfaction of the conditions precedent in the Loan Capitalisation Agreement, and the Loan Capitalisation may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

Yours faithfully,  
For and on behalf of the Board  
**China HK Power Smart Energy Group Limited**  
**Deng Yaobo**  
*Chief Executive Officer and Executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the full text of a letter from the Independent Board Committee setting out its recommendation for the purpose of inclusion in this circular.*

*Independent non-executive Directors:*

Mr. Li Siu Yui  
Mr. Chow Ching Ning  
Mr. Mr. Lam Lum Lee

27 March 2024

*To the Independent Shareholders*

Dear Sirs or Madams,

**(1) CONNECTED TRANSACTION  
LOAN CAPITALISATION INVOLVING ISSUE OF  
NEW SHARES UNDER SPECIFIC MANDATE  
AND  
(2) NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

We refer to the circular dated 27 March 2024 issued by the Company (the “**Circular**”) to the Shareholders of which this letter forms part. The capitalised terms defined in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

We have been appointed as the members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder are: (i) fair and reasonable; (ii) on normal commercial terms or better; and (iii) in the interests of the Company and its Shareholders as a whole; and (iv) to advise the Independent Shareholders how to vote at the EGM.

Optima Capital Limited has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder. The letter of advice from Optima Capital Limited containing their recommendation and the principal factors they have taken into account in arriving at their recommendation is set out on pages 16 to 36 of the Circular.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We wish to draw your attention to the letter from the Board, as set out on pages 4 to 13 of the Circular and the text of a letter of advice from the Independent Financial Adviser, as set out on pages 16 to 36 of the Circular, both of which provide details of the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder. After taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we concur with its views and consider that although the entering into of the Loan Capitalisation Agreement is not conducted in the ordinary and usual course of business of the Group, the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully  
For and on behalf of  
the Independent Board Committee of  
**China HK Power Smart Energy Group Limited**

**Mr. Li Siu Yui**  
*Independent*  
*non-executive Director*

**Mr. Chow Ching Ning**  
*Independent*  
*non-executive Director*

**Mr. Lam Lum Lee**  
*Independent*  
*non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



Suite 1501, 15th Floor  
Jardine House  
1 Connaught Place  
Central, Hong Kong

27 March 2024

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **CONNECTED TRANSACTION LOAN CAPITALISATION INVOLVING ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE**

#### **I. INTRODUCTION**

We, Optima Capital Limited (“**Optima Capital**”), have been appointed by the Company as the independent financial adviser in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder, details of which are contained in the letter from the Board (the “**Board Letter**”) in the circular of the Company dated 27 March 2024 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As at the date of the Loan Capitalisation Agreement, the Company was indebted to the Subscriber the Shareholder’s Loans in an aggregate amount of approximately HK\$718.17 million, which comprised aggregate outstanding principal amount of approximately HK\$632.25 million and accrued interest of approximately HK\$85.92 million. The Shareholder’s Loans were provided to the Group by the Subscriber for the purpose of financing the Group’s general working capital requirement and business development needs from time to time.

On 7 March 2024, the Company and the Subscriber entered into the Loan Capitalisation Agreement, pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, a total of 697,674,419 Capitalisation Shares at the Capitalisation Price of HK\$0.430 per Capitalisation Share. The aggregate Capitalisation Price of all Capitalisation Shares payable by the Subscriber shall be satisfied by setting off against the Repayment Amount of HK\$300 million upon Completion.

The Capitalisation Shares represent (i) approximately 11.67% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 10.45% of the total number of issued Shares as enlarged by the allotment and issue of the Capitalisation Shares, assuming that there will be no change in the total number of issued Shares between the Latest Practicable Date and the Completion Date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at the Latest Practicable Date, the Subscriber was the chairman of the Board, an executive Director and the controlling Shareholder who beneficially owned 3,333,503,139 Shares, representing approximately 55.78% of the issued share capital of the Company, and hence a connected person of the Company pursuant to the Listing Rules. Accordingly, the Loan Capitalisation constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Chow Ching Ning and Mr. Lam Lum Lee, has been established to advise and make recommendations to the Independent Shareholders on whether (i) the Loan Capitalisation Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Loan Capitalisation Agreement are on normal commercial terms, and fair and reasonable; and (iii) the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole. We, Optima Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated or connected with the Company or the Subscriber or their respective connected persons or associates. During the two years immediately prior to the date of our appointment, we have not (i) acted in the capacity as a financial adviser or independent financial adviser to the Company; (ii) provided any services to the Company; or (iii) had any relationship with the Company.

As at the Latest Practicable Date, we were not aware of any relationships or interests among us and the Company, the Subscriber or their respective connected persons or associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser. Accordingly, we consider that we are independent from the Company and eligible to give independent advice in respect of the Loan Capitalisation. Apart from normal professional fees paid or payable to us in connection with this engagement, no arrangement exists whereby we had received or will receive any fees or benefits from the Company, the Subscriber or their respective connected persons or associates.

## II. BASIS OF OUR OPINION

In formulating our advice and recommendations, we have relied on the information and facts supplied and the opinions expressed by the Directors and management of the Company (collectively, the “**Management**”) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date.

We have reviewed, among other things, (i) the Loan Capitalisation Agreement; (ii) the Announcement; (iii) the annual reports for the two years ended 31 March 2022 and 2023 (the “**FY2023 Annual Report**”) and the interim report for the six months ended 30 September 2023 (the “**1H2024 Interim Report**”) published by the Company; (iv) the information contained in the Circular; and (v) other information obtained from the public domain.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs and taxation implications of the Loan Capitalisation to the Group, nor have we carried out any independent verification of the information supplied.

### III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent advice with regard to the Loan Capitalisation, we have considered the following principal factors and reasons:

#### 1. Information of the Group

##### *1.1 Principal businesses of the Group*

The Group is principally engaged in sales and distribution of natural gas and provision of financial services business. As set out in the Board Letter, the Group has expanded into new energy business recently, focusing on the key areas of overall energy supply structure, energy usage and recovery which include smart heating, building energy efficiency, industrial energies, energy and carbon trading, energy storage and digital intelligence integration.

The natural gas business of the Group includes (i) natural gas energy centre; (ii) natural gas point-to-point supply services; (iii) natural gas truck filling stations; (iv) natural gas transportation fleet logistics; (v) local government and gas company natural gas peak shaving storage; (vi) national natural gas pipeline network gas transmission; (vii) natural gas trading; (viii) pipeline natural gas direct supply services; and (ix) pipeline natural gas trading, and is categorised into four key focuses, namely (a) point-to-point supply of natural gas (the “**Retail Business**”); (b) wholesale of natural gas (the “**Wholesale Business**”); (c) distribution of natural gas (logistics); and (d) natural gas pipeline network connection, in the PRC.

The financial services business of the Group includes provision of (i) finance lease services in the PRC; (ii) money lending in Hong Kong; and (iii) assets management services in Hong Kong.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1.2 Financial performance of the Group

Set out below is the summary of the financial performance of the Group for the two years ended 31 March 2022 (“FY2022”) and 2023 (“FY2023”) and the six months ended 30 September 2022 (“1H2023”) and 2023 (“1H2024”), extracted from the FY2023 Annual Report and 1H2024 Interim Report.

	<b>FY2022</b>	<b>FY2023</b>	<b>1H2023</b>	<b>1H2024</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	432,547	211,850	128,606	128,622
Gross loss	(34,126)	(16,101)	(9,181)	(1,292)
Finance costs	(11,101)	(34,859)	(16,801)	(15,701)
Loss before income tax	(199,499)	(182,844)	(81,890)	(58,463)
Loss for the year/period attributable to owners of the Company	(198,790)	(167,194)	(72,405)	(47,216)

#### 1.2.1 FY2023 vs FY2022

The Group’s revenue for FY2023 decreased by approximately 51.0% as compared to that for FY2022, which was mainly due to the significant decrease in revenue from the Wholesale Business by approximately 85.1% or HK\$149.9 million, as a result of the Group having shifted its business focus from the Wholesale Business to the higher-margin Retail Business following the gradual commencement of commercial operation of the Group’s energy centres. However, due to (i) pandemic control measures in the PRC imposed in the first few months of FY2023, resulting in temporary production standstill; and (ii) the unstable natural gas prices led to customer hesitation in choosing natural gas or other energy sources, the income of the Retail Business also decreased by approximately 18.4% or HK\$25.5 million for FY2023 as compared to that for FY2022.

The gross loss of the Group for FY2023 improved by approximately 52.8% as compared to that for FY2022. Such improvement was attributable to the Group’s strategic shift in focus from the Wholesale Business to the higher-margin Retail Business as mentioned above. The gross loss was mainly caused by the unstable natural gas prices during FY2023, resulting in a thin gross margin for the Group that was insufficient to cover the fixed costs.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The finance costs of the Group mainly comprised (i) interest expense on loans from a shareholder; (ii) interest expense on interest-bearing bank borrowings; and (iii) default interest expense, which accounted for approximately 66.8%, 17.5% and 12.0% of the total finance costs of the Group for FY2023, respectively. The finance costs of the Group for FY2023 increased by approximately 214.0% as compared to that for FY2022. Such increase was mainly due to the significant increase in the interests accrued for the Shareholder's Loans by approximately 41.1 times or HK\$22.7 million for FY2023.

The loss attributable to owners of the Company improved by approximately 15.9% for FY2023, which was mainly due to (i) the improvement in gross loss; and (ii) no impairment loss was recognised for non-financial assets for FY2023 in accordance with the applicable accounting policies, while offset by the increase in finance costs.

### *1.2.2 1H2024 vs 1H2023*

The revenue of the Group for 1H2024 remained at similar level as compared to 1H2023.

The gross loss of the Group for 1H2024 improved by approximately 85.9% as compared that for 1H2023, which was mainly due to (i) the improved gross profit from the natural gas supply business as the Group benefited from the cooperation with CNOOC Limited, the largest producer of offshore crude oil and natural gas in the PRC, and obtained favourable prices on natural gas purchases; (ii) the cost-saving measures in the natural gas logistics business due to the reorganisation of the loss-making business units which minimized the impact of direct costs; and (iii) the drop in national natural gas prices which reduced the cost of natural gas consumption of the logistics business.

The finance costs of the Group comprised (i) interest expense on loans from a shareholder; (ii) interest expense on interest-bearing bank borrowings; and (iii) interest expense on lease liabilities, which accounted for approximately 77.9%, 21.0% and 1.1% of the total finance costs of the Group for 1H2024, respectively. The finance costs of the Group for 1H2024 decreased by approximately 6.5% as compared to that for 1H2023, which was mainly due to interest savings on lease liabilities of approximately HK\$1.85 million resulting from the maturity of lease terms during 1H2024, which was partially offset by an increase in interest expense accrued from the Shareholder's Loans amounting to approximately HK\$1.08 million.

The loss attributable to owners of the Company for 1H2024 improved by approximately 34.8% as compared to that for 1H2023. Such improvement was mainly due to (i) the significant reduction in administrative expenses of approximately 30.6% or HK\$16.51 million, as a result of the Company's effective management control over the general operational expenditures; and (ii) the improvement in gross loss of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1.3 *Financial position of the Group*

Set out below is the summary of the financial position of the Group as at 30 September 2023 as extracted from the 1H2024 Interim Report.

	<b>As at</b> <b>30 September 2023</b> <i>HK\$'000</i> (Unaudited)
<b>Non-current assets</b>	
Property, plant and equipment	428,913
Right-of-use assets	107,895
Interests in joint ventures	73,385
Deposits for acquisition of plant and equipment	105,522
Other assets	280,400
Other non-current assets	47,491
	<hr/>
	<b>1,043,606</b>
<b>Current assets</b>	
Loan and reimbursement receivables	112,787
Accounts and other receivables, prepayments and deposits	84,734
Cash and cash equivalents	53,726
Other current assets	18,064
	<hr/>
	<b>269,311</b>
<b>Non-current liabilities</b>	
Loans from a shareholder	511,474
Interest-bearing bank borrowings	23,291
Other non-current liabilities	8,091
	<hr/>
	<b>542,856</b>
<b>Current liabilities</b>	
Accounts payables	105,960
Other payables and accruals	478,020
Interest-bearing bank borrowings	82,934
Other current liabilities	7,356
	<hr/>
	<b>674,270</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	<b>As at</b>
	<b>30 September 2023</b>
	<i>HK\$'000</i>
	(Unaudited)
<b>Net current liabilities</b>	<b>(404,959)</b>
<b>Total assets</b>	<b>1,312,917</b>
<b>Total liabilities</b>	<b>1,217,126</b>
<b>Total equity</b>	<b>95,791</b>
<b>Equity attributable to the owners of the Company</b>	<b>77,686</b>

### *1.3.1 Total assets*

As at 30 September 2023, the total assets of the Group mainly comprised (i) property, plant and equipment; (ii) other assets, representing the right to acquire liquified natural gas tank containers (the “**LNG Containers Right**”) pursuant to a sale and purchase agreement dated 29 June 2018; (iii) loan and reimbursement receivables, representing the loans advanced by the money-lending subsidiary of the Company to the ultimate beneficial owner of one of the non-controlling shareholders of Key Fit Group Limited, a 60.42%-owned subsidiary of the Company, with interest rates ranging from 12% to 15% per annum at the time of granting and respective extension pursuant to the loan agreements; (iv) rights-of-use assets in respect of land use rights and properties; and (v) deposits for acquisition of plant and equipment, accounting for approximately 32.7%, 21.4%, 8.6%, 8.2% and 8.0% of the total assets of the Group, respectively.

### *1.3.2 Total liabilities*

The total liabilities of the Group mainly comprised (i) the outstanding principal amount of the Shareholder’s Loans; (ii) other payables and accruals, representing (a) the payable for the LNG Containers Right of approximately HK\$280.40 million; (b) accruals and other payables of approximately HK\$99.73 million; (c) interest payable accrued on the Shareholder’s Loans of approximately HK\$77.51 million; and (d) contract liabilities of approximately HK\$20.38 million; and (iii) accounts payable in respect of the natural gas business of the Group, accounting for approximately 42.0%, 39.3% and 8.7% of the total liabilities of the Group as at 30 September 2023, respectively.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *1.3.3 Shareholder's Loans*

As at 30 September 2023, the Shareholder's Loans amounted to approximately HK\$588.98 million, which comprised (i) aggregate outstanding principal amount of approximately HK\$511.47 million; and (ii) aggregate accrued interest of approximately HK\$77.51 million.

As set out in the Board Letter, as at the date of the Loan Capitalisation Agreement, the Shareholder's Loans further increased to approximately HK\$718.17 million, which comprised (i) aggregate outstanding principal amount of approximately HK\$632.25 million; and (ii) aggregate accrued interest of approximately HK\$85.92 million, representing an increase of approximately HK\$120.78 million and HK\$8.41 million as compared to that as at 30 September 2023, respectively. As advised by the Management, the increase in the Shareholder's Loans of approximately HK\$120.78 million was due to the net effect of (i) new Shareholder's Loans of approximately HK\$172.55 million had been granted to the Group; and (ii) repayment of Shareholder's Loans in the amount of HK\$51.77 million during the period from 1 October 2023 to the date of the Loan Capitalisation Agreement. The increase in the interest accrued on the Shareholder's Loans of approximately HK\$8.41 million was due to the net effect of (i) interest accrued on existing and new Shareholder's Loans during the period from 1 October 2023 of about HK\$8.46 million to the date of the Loan Capitalisation Agreement; and (ii) repayment of Shareholder's Loans interests amounting to approximately HK\$0.05 million by the Group.

The Shareholder's Loans have been provided by the Subscriber to the Group from time to time for the purpose of financing its working capital requirement and business development needs. As advised by the Management, the Shareholder's Loans are typically repayable within one year and will become repayable on demand when due if not repaid. Among the Shareholder's Loans, as at the date of the Loan Capitalisation Agreement, five loans with aggregate outstanding principal amount of approximately HK\$146.88 million are due and repayable by the end of 2024 (the "**Shareholder's Loans Due 2024**"), while the remaining loans amounting to approximately HK\$485.37 million are repayable on demand. The Shareholder's Loans are unsecured and currently bear an interest rate of 5% per annum, save for the Shareholder's Loans Due 2024 that were granted an interest-free period up to 31 March 2024. Upon expiry of their respective interest-free periods, the Shareholder's Loans Due 2024 will accrue interest at the rate of 5% per annum.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *1.3.4 Gearing ratio*

As at 30 September 2023, the total interest-bearing debts of the Group amounted to approximately HK\$617.70 million, which consisted of (i) the Shareholder's Loans in the outstanding principal amount of approximately HK\$511.47 million in aggregate; and (ii) bank loans in the outstanding principal amount of approximately HK\$106.23 million. It is also worth noting that, as at 30 September 2023, the gearing ratio of the Group reached approximately 644.8% (calculated by dividing the total interest-bearing debts of HK\$617.70 million by the total equity of HK\$95.79 million), which was at a higher level as compared to that of 628.6% as at 31 March 2023, not to mention the additional Shareholder's Loans of approximately HK\$120.78 million which have been granted to the Group as mentioned above, and the additional interest accrued on the Group's debts, subsequent to 30 September 2023.

With such high level of gearing, the finance costs of the Group amounted to approximately HK\$15.70 million for 1H2024, representing approximately 12.2% of the revenue of the Group of approximately HK\$128.62 million for the period.

### *1.3.5 Cash and cash equivalents*

As at 30 September 2023, the cash and cash equivalents of the Group amounted to approximately HK\$53.73 million. Such amounts were insufficient to cover the outstanding Shareholder's Loans as at the date of the Loan Capitalisation Agreement of approximately HK\$718.17 million, not to mention the outstanding loan principal and interest in respect of the bank loans of the Group.

## **2. Information of the Subscriber**

As at the Latest Practicable Date, the Subscriber was the chairman of the Board, an executive Director and the controlling Shareholder who beneficially owned 3,333,503,139 Shares, representing approximately 55.78% of the issued share capital of the Company. Therefore, the Subscriber is a connected person of the Company pursuant to the Listing Rules.

## **3. Principal terms of the Loan Capitalisation Agreement**

The details of the Loan Capitalisation Agreement are set out in the Board Letter. Set out below is a summary of the principal terms of the Loan Capitalisation Agreement.

### *3.1 Number of Capitalisation Shares*

Pursuant to the Loan Capitalisation Agreement, The Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, a total of 697,674,419 Capitalisation Shares. The aggregate nominal value of the Capitalisation Shares (with a par value of HK\$0.02 each) is HK\$13,953,488.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Capitalisation Shares to be allotted and issued to the Subscriber will be allotted and issued under the Specific Mandate to be obtained at the EGM.

### 3.2 *Capitalisation Price*

The Capitalisation Price of HK\$0.43 per Capitalisation Share represents:

- (i) no premium over or discount to the closing price per Share of HK\$0.430 as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) no premium over or discount to the closing price of HK\$0.430 per Share as quoted on the Stock Exchange on 7 March 2024, being the date of the Loan Capitalisation Agreement;
- (iii) a premium of approximately 1.42% over the average closing price per Share of HK\$0.424 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement;
- (iv) a premium of approximately 1.54% over the average closing price per Share of HK\$0.4235 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement; and
- (v) a premium of approximately 3,207.69% over the Company's unaudited consolidated net asset value per Share as at 30 September 2023 of approximately HK\$0.013 (calculated by equity attributable to the Shareholders of approximately HK\$77,686,000 as at 30 September 2023 and 5,976,355,230 Shares in issue as at the date of the Latest Practicable Date).

The aggregate Capitalisation Price of all Capitalisation Shares payable by the Subscriber shall be satisfied by way of setting off against the Repayment Amount of HK\$300 million upon Completion. The Repayment Amount to be set off shall include (i) all the interest accrued for the Shareholder's Loans as at the date of the Loan Capitalisation Agreement of approximately HK\$85.92 million in aggregate; (ii) the Shareholder's Loans Due 2024 of approximately HK\$146.88 million in aggregate; and (iii) part of the loans which are repayable on demand of approximately HK\$67.20 million in aggregate.

The Group will use its internal resources to settle the professional fees and all related expenses which may be borne by the Company in connection with the Loan Capitalisation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4. Reasons for and benefits of the Loan Capitalisation

As set out in the Board Letter, the Subscriber has expressed to the Company his intention to capitalise the Shareholder's Loans and increase his equity investment in the Company given his confidence in the Group's future business performance. The Management is of the view that (i) the existing financial resources of the Group is insufficient to repay the amount due to the Subscriber; (ii) by capitalising the Repayment Amount, the Group would be able to settle certain existing liabilities without utilising its existing financial resources and potentially avoid cash outflows; and (iii) the capitalisation of the Repayment Amount would improve the Company's indebtedness level and broaden its capital base.

As at 30 September 2023, the Group was significantly over-leveraged, having total interest-bearing debts of approximately HK\$617.70 million (which included the outstanding principal amount of the Shareholder's Loans of approximately HK\$511.47 million) and recording a gearing ratio of 644.8%, as discussed in the section headed "1. Information of the Group" above. The outstanding principal amount of the Shareholder's Loans was further increased to approximately HK\$632.25 million as at the date of the Loan Capitalisation Agreement. Furthermore, as at 30 September 2023, the Group only had approximately HK\$53.73 million cash and cash equivalents which were insufficient to cover even the current portion of its bank borrowings of HK\$82.93 million. Having considered the above, it is conceivable that the Group would have difficulty in satisfying its short-term liabilities with its limited existing financial resources. The Loan Capitalisation would enable the Group to settle the Repayment Amount without obtaining additional bank borrowing, incurring additional finance costs, or utilising its financial resources. The gearing level of the Group would be improved, thereby strengthening its financial position; and, as set out in the section headed "7. Possible financial effects of the Loan Capitalisation" below, the Group would also save interest expenses of approximately HK\$10.70 million per annum going forward.

We have discussed with the Management and were given to understand that the Company had considered alternative means for raising funds to settle the Shareholder's Loans, such as bank borrowings, share placement, rights issue or open offer.

The Company had considered obtaining bank borrowings to refinance the Shareholder's Loans, but having considered that obtaining additional bank borrowings or debt financing (i) would not improve the Group's gearing level and incurs finance costs, as compared to the Loan Capitalisation which will improve the Group's gearing without incurring interest expenses; (ii) would be difficult, uncertain and time-consuming in light of the financial condition of the Group; and (iii) generally involve pledge of assets and/or securities which may limit the Group's operational flexibility, the Management is of the view, and we concur, that debt financing and bank borrowings are not desirable financing alternatives for the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In respect of other equity financing options such as placing of new shares, rights issue and open offer, we understand that (i) pre-emptive fundraising methods such as rights issues or open offers normally take at least five to six weeks, and lengthy discussions with potential underwriters may also be involved; (ii) additional costs, including but not limited to placing fees, underwriting commission and other professional fees, are likely to be incurred; and (iii) given (a) the recent gross losses and net current liabilities recorded by the Group, and (b) the prevailing market prices and thin trading liquidity of the Shares as discussed in the section headed “5. Analysis of the Capitalisation Price” below in this letter, it would be difficult for the Company to conduct a share placement, rights issue or open offer of size comparable to the Repayment Amount without offering a considerable discount to attract subscribers. On the other hand, the Loan Capitalisation (i) will be more expedient and require less discussions/negotiations with external parties; (ii) incur no additional costs; (iii) the Capitalisation Price is equivalent to the closing price per Share on, and represents premiums over the average closing prices for the last five and ten consecutive trading days immediately preceding, the date of the Loan Capitalisation Agreement; and (iv) given the Subscriber’s intention to capitalise the Repayment Amount, the Loan Capitalisation is subject to less completion risk. In light of the above, we concur with the view of the Management that equity financing is not a desirable financing alternative for the Group.

In view of the foregoing, in particular the time and costs that would be incurred, and the uncertainties involved for debt financing and equity financing as compared to that of the Loan Capitalisation, we are of the view that the Loan Capitalisation is comparatively a more appropriate and desirable means of settling part of the Shareholder’s Loans.

Having considered the above, although the Loan Capitalisation is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

### 5. Analysis of the Capitalisation Price

As set out in the Board Letter, the Capitalisation Price of HK\$0.430 per Capitalisation Share was arrived at on an arm’s length basis between the Company and the Subscriber after taking into account (i) the recent trading performance of the Shares; (ii) the recent market conditions; (iii) the current financial position of the Group; and (iv) the business prospects of the Group.

In order to assess the fairness and reasonableness of the Capitalisation Price, we have reviewed the daily closing prices and trading volume of the Shares from 8 March 2023 to 7 March 2024 (being the period of 12 months prior to and including the date of the Loan Capitalisation Agreement, the “**Review Period**”) and compared with the Capitalisation Price. We consider the Review Period is adequate, fair and representative to reflect the prevailing market sentiment primarily and illustrate the general trend and level of movement of the daily closing prices of the Shares, which can reflect the correlation between the recent business performance of the Group and the latest market reaction in the Share price.

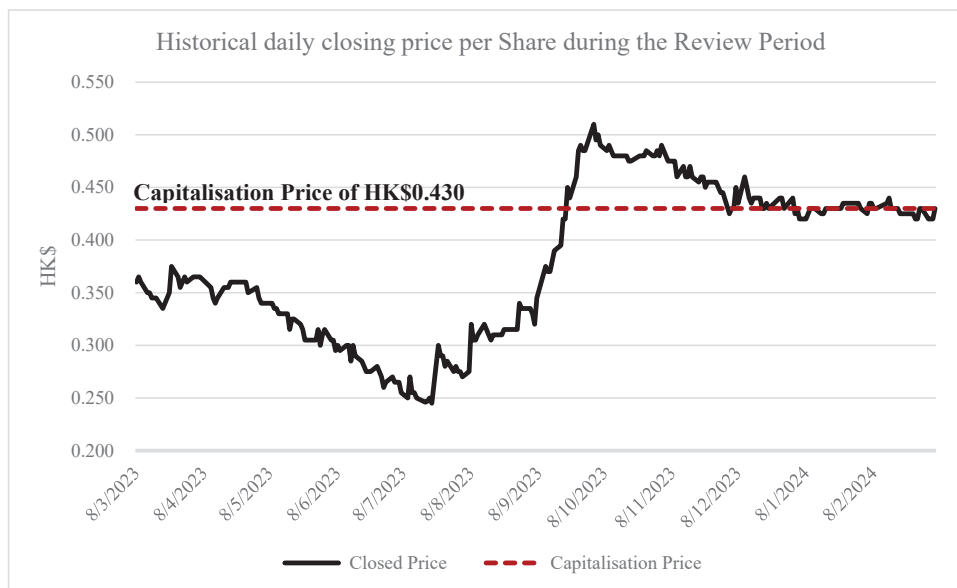
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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5.1 Analysis of historical Share price performance

The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:



Source: the Stock Exchange

As shown in the chart above, during the Review Period, the daily closing prices of the Shares ranged from HK\$0.245 per Share (the “**Lowest Closing Price**”) recorded on 21 July 2023 to HK\$0.510 per Share (the “**Highest Closing Price**”) recorded on 3 October 2023, and the average closing price of the Shares was approximately HK\$0.380 per Share (the “**Average Closing Price**”).

The Capitalisation Price of HK\$0.430 per Capitalisation Share represents (i) a premium of approximately 75.5% over the Lowest Closing Price of HK\$0.245 per Share; (ii) a discount of approximately 15.7% to the Highest Closing Price of HK\$0.510 per Share; and (iii) a premium of approximately 13.3% over the Average Closing Price of approximately HK\$0.380 per Share.

Taking into consideration that the Capitalisation Price represents a premium of approximately 13.3% over the Average Closing Price, and is in the 70th percentile of the historical closing prices of the Shares during the Review Period, i.e. the Capitalisation Price equal to or higher than the closing prices for 70% of the days during the period, we are of the view that the Capitalisation Price is fair and reasonable from the perspective of the historical closing prices of the Shares.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5.2 Analysis of trading liquidity of the Shares

The following table sets out (i) the average daily trading volume of the Shares; and (ii) the percentage of average daily trading volume of the Shares to the total number of issued Shares as at the end of the month/period during the Review Period.

	Number of trading days	Total trading volume of the Shares for the month/period	Average daily trading volume of the Shares for the month/period	Total number of issued Shares as at the month/period end	Percentage of average daily trading volume of the Shares to the total number of issued Shares
	<i>Days</i>	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>Approx. %</i>
<b>2023</b>					
March (commencing from 8 March 2023)	18	7,229,313	401,629	5,643,797,090	0.007
April	17	6,558,500	385,794	5,643,797,090	0.007
May	21	7,309,625	348,077	5,643,797,090	0.006
June	21	4,688,920	223,282	5,643,797,090	0.004
July	20	17,043,063	852,153	5,643,797,090	0.015
August	23	19,699,040	856,480	5,643,797,090	0.015
September	19	81,787,581	4,304,610	5,743,797,090	0.075
October	20	46,608,698	2,330,435	5,743,797,090	0.041
November	22	106,084,603	4,822,027	5,743,797,090	0.084
December	19	60,846,089	3,202,426	5,743,797,090	0.056
<b>2024</b>					
January	22	30,858,673	1,402,667	5,743,797,090	0.024
February	19	21,031,000	1,106,895	5,976,355,230	0.019
March (up to and including 7 March 2024)	5	3,250,500	650,100	5,976,355,230	0.011

*Source: the Stock Exchange*

As illustrated in the table above, the average daily trading volume of the Shares was low, ranging from 223,282 Shares to 4,822,027 Shares during the Review Period, representing approximately 0.004% to 0.084% of the total issued Shares as at the end of relevant month/period.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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It is noted that the monthly average daily trading liquidity of the Shares were very thin during the Review Period, being less than 0.1% of the then total issued Shares as at the end of each month/period for all months/periods during the Review Period. The Management's view, and we concur, is that issuance of new Shares to potential investors as an alternative to raise funds for settling the Shareholder's Loans will likely require a considerable discount to the prevailing market price of the Shares as an incentive and would be difficult for the Group to raise equivalent funds as the Repayment Amount given the low prevailing Share prices.

### **5.3 Market comparables analysis**

To further assess the fairness and reasonableness of the Capitalisation Price, we have selected and identified nine comparable transactions (the "**Comparables**") based on the following criteria: (i) companies listed on the Stock Exchange; (ii) companies that had published announcements in relation to subscription of new shares under specific mandate by connected persons during the period from 8 September 2023 to 7 March 2024 (being six months prior to and including the date of the Loan Capitalisation Agreement, the "**Comparable Period**"); (iii) excluding issues under share award or for emolument or restructuring scheme or acquisition purposes; and (iv) excluding issues of A shares or domestic shares. We have restricted our comparison to subscriptions by connected persons as we consider transactions such as placing to independent third parties, rights issue and open offer in the market tend to be conducted at a discount to their respective last trading days in order to attract new investors and existing shareholders to subscribe, and may therefore distort our comparable analysis.

We are of the view that the aforementioned criteria are appropriate and that the Comparable Period would provide us with the recent relevant information on the market sentiment, which plays an important role in the determination of the subscription prices of the Comparables in general. The six-month timeframe was adopted to demonstrate the recent market trends with sufficient and representative number of Comparables and thus, we consider the timeframe of the Comparable Period is reasonable and representative. We also noted that the terms of the relevant transactions of the Comparables may vary from companies with different financial standings, business performance and future prospects. We have also disregarded the relevance of comparing the size and use of proceeds from subscriptions carried out by the Comparables as they vary among companies with different purposes for their respective subscriptions. Since the Comparables are the recent transactions announced to the public, we consider that they represent the recent trend of relevant transactions in the prevailing market condition and could provide a general reference for the terms of the subscription price.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our relevant findings are summarised in the table below:

Date of announcement	Stock code	Company name	Premium/ (discount) of the subscription price over/ to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of corresponding agreement <i>Approx. %</i>	Premium/ (discount) of the subscription price over/ to the closing price per share on/prior to the date of the corresponding agreement <i>Approx. %</i>
9 February 2024	618	Peking University Resources (Holdings) Company Limited	(9.52)	(19.03)
2 February 2024	1520	Virtual Mind Holding Company Limited	(23.66)	(24.81)
12 January 2024	2309	ZO Future Group	(15.00)	(11.41)
22 December 2023	8391	Cornerstone Technologies Holdings Limited	17.00	14.00
24 November 2023	1797	East Buy Holding Limited	–	5.87
6 November 2023	1452	Denox Environmental & Technology Holdings Limited	(4.00)	2.56
30 October 2023	3963	China Rongzhong Financial Holdings Company Limited	(9.52)	(9.09)
20 October 2023	1520	Virtual Mind Holding Company Limited	8.70	6.38
10 October 2023	2222	NVC International Holdings Limited	–	2.20
		<b>Maximum</b>	<b>17.00</b>	<b>14.00</b>
		<b>Minimum</b>	<b>(23.66)</b>	<b>(24.81)</b>
		<b>Average</b>	<b>(4.00)</b>	<b>(3.70)</b>
		<b>Median</b>	<b>(4.00)</b>	<b>2.20</b>
		<b>Capitalisation Price</b>	<b>–</b>	<b>1.42</b>

*Source: the Stock Exchange*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As illustrated in the table above, the subscription prices of the Comparables:

- (i) ranged from approximately 23.66% discount to approximately 17.00% premium with the median being approximately 4.00% discount (the “**Market Median**”), to/over their respective closing prices on/prior to the date of the corresponding agreement; and
- (ii) ranged from approximately 24.81% discount to approximately 14.00% premium with the median being approximately 2.20% premium (the “**5-Day Market Median**”), to/over their average closing prices for the last five consecutive trading days prior to/up to and including the date of the corresponding agreement.

The Capitalisation Price (i) is equivalent to the closing Share price on the date of the Loan Capitalisation Agreement, which is better off than the Market Median; and (ii) represents a premium of approximately 1.42% over the last five trading days up to and including the Last Trading Day, which is close to the 5-Day Market Median.

#### ***5.4 Issue price of equity fund raising activities of the Company in the past twelve months***

As set out in the Board Letter, the Company has completed two equity fund raising activities during the past twelve months, the details of which are set out below:

- (i) On 29 September 2023, the Company allotted and issued 100,000,000 new Shares under the General Mandate to an Independent Third Party subscriber at a subscription price of HK\$0.390 per Share; and
- (ii) On 2 February 2024, the Company allotted and issued 232,558,140 new Shares under the General Mandate to two Independent Third Parties, as the initial consideration for acquiring the entire issued share capital of a target company, at an issue price of HK\$0.430 per Share.

The Capitalisation Price of HK\$0.430 (i) represents a premium of approximately 10.3% over the subscription price of HK\$0.390 in respect of the new Shares allotted and issued on 29 September 2023; and (ii) is equivalent to the issue price of HK\$0.430 for the consideration Shares allotted and issued on 2 February 2024.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5.5 *Our view*

Having considering the above, in particular that:

- (i) the Capitalisation Price is equivalent to the closing price on the date of the Loan Capitalisation Agreement and represents a premium of approximately 13.3% over the Average Closing Price, and is in the 70th percentile of the historical closing prices of the Shares during the Review Period, as illustrated in the paragraph headed “5.1 Analysis of historical Share price performance” above;
- (ii) the relatively thin trading liquidity of the Shares as discussed in the paragraph headed “5.2 Analysis of trading liquidity of the Shares” above;
- (iii) the premium represented by the Capitalisation Price is better off than the Market Median and close to the 5-Day Market Median; and
- (iv) the Capitalisation Price is no less favourable than the historical subscription/issue prices for the allotment and issue of new Shares by the Company to Independent Third Parties in the past twelve months,

we are of the view that the Capitalisation Price is fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 6. Potential dilution effect on the shareholding of the Company

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and the allotment and issue of the Capitalisation Shares as contemplated pursuant to the Loan Capitalisation, assuming there are no other changes to the total issued share capital of the Company between the Latest Practicable Date and the Completion Date save for the allotment and issue of the Capitalisation Shares:

	<b>As at the Latest Practicable Date</b>		<b>Immediately upon Completion</b>	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
<b>Directors</b>				
The Subscriber ( <i>Note 1</i> )	3,333,503,139	55.78	4,031,117,558	60.40
Mr. Li Kai Yien, Arthur Albert	200,000	0.01	200,000	0.01
Sunland Limited ( <i>Note 2</i> )	116,279,070	1.95	116,279,070	1.74
Old Boy Limited ( <i>Note 2</i> )	116,279,070	1.95	116,279,070	1.74
Other public Shareholders	2,410,093,951	40.31	2,410,093,951	36.11
<b>Total</b>	<b>5,976,355,230</b>	<b>100.00</b>	<b>6,674,029,649</b>	<b>100.00</b>

*Notes:*

1. 5,000,000 shares among these Shares are held by Ground Up, a company wholly-owned by the Subscriber. The Subscriber is also a director of Ground Up.
2. The aggregate of 232,558,140 Shares represents initial consideration shares that have been allotted and issued under the General Mandate for a major acquisition, pursuant to the sale and purchase agreement dated 21 December 2023 entered into between the Company, Sunland Limited and Old Boy Limited.

As illustrated in the table above, the shareholding of the other public Shareholders would decrease from approximately 40.31% to approximately 36.11% immediately upon Completion, representing a dilution effect of approximately 4.20%.

Despite the dilution effect to the existing public shareholders brought about by the issue of Capitalisation Shares, taking into account that (i) the Capitalisation Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole, as discussed in the section headed “5. Analysis of the Capitalisation Price” above; (ii) the Loan Capitalisation will reduce future interest expenses arising from the Shareholder’s Loans; and (iii) the enhancement to the Group’s gearing ratio and financial position after Completion, we consider that the dilution effect on the shareholding interest of the public Shareholders is acceptable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 7. Possible financial effects of the Loan Capitalisation

#### 7.1 *Earnings*

Save for the Shareholder's Loans Due 2024 that were granted an interest-free period up to 31 March 2024, the remaining Shareholder's Loans accrue interest at a rate of 5% per annum. The Loan Capitalisation will enable the Group to save on a portion of interest expenses going forward. Upon Completion, the Company can save interest expenses of approximately HK\$10.70 million per annum, which is calculated by multiplying the capitalised interest-bearing Shareholder's Loans of approximately HK\$214.08 million by the interest rate of 5% per annum. The aforesaid savings on interest expenses are expected to improve the earnings of the Group.

#### 7.2 *Net asset value*

Immediately upon Completion, the net asset value of the Group is expected to increase by the Repayment Amount of HK\$300 million.

#### 7.3 *Gearing ratio*

As at 30 September 2023, the gearing ratio of the Group was approximately 644.8%. As illustrated above, upon Completion, (i) the allotment and issue of the Capitalisation Shares will enlarge the Company's capital base and enhance its equity position; and (ii) Shareholder's Loans in the amount of the Repayment Amount will be capitalised and thus the total interest-bearing debts will be reduced by HK\$214.08 million. Given all other things being equal, the Group's gearing ratio is expected to improve to approximately 81.41% immediately upon Completion.

It should be noted that the above analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon Completion.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### IV. OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular that:

- (i) the Loan Capitalisation will relieve part of the Group's financial burden, reduce future financing costs and improve the indebtedness level of the Group;
- (ii) the Loan Capitalisation is considered the preferred method of fundraising as compared to the alternatives, as discussed in the section headed "4. Reasons for and benefits of the Loan Capitalisation" above in this letter;
- (iii) the Capitalisation Price is fair and reasonable, as discussed in the section headed "5. Analysis of the Capitalisation Price" above in this letter, particularly that it is equivalent to the closing price on the date of the Loan Capitalisation Agreement and represents premiums over the average closing price per Share for the last five and ten consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement; and
- (iv) the potential dilution effect to the existing shareholders is acceptable, as discussed in the section headed "6. Potential dilution effect on the shareholding of the Company" above in this letter,

on balance, we consider that, although the entering into of the Loan Capitalisation Agreement is not conducted in the ordinary and usual course of business of the Group, the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder.

Yours faithfully,  
for and on behalf of  
**OPTIMA CAPITAL LIMITED**  
**Calvin Cheng**  
*Director, Corporate Finance*

*Mr. Calvin Cheng is a responsible officer of Optima Capital and a licensed person registered with the SFC to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Cheng has over 10 years of experience in corporate finance.*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she has taken or deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Directors' Interests and Short Positions in Shares, Underlying Shares and Debenture of the Company

Name of Director	Capacity/Nature of interest	Long position/ Short position	Number of Shares	Approximate percentage of the issued share capital <i>(Note 1)</i>
Dr. Kan	Beneficial owner	Long position	3,333,503,139 <sup>(Note 2)</sup>	55.78%
		Short position	1,101,000,000 <sup>(Note 3)</sup>	18.42%
Mr. Li	Beneficial owner	Long position	200,000	0.01%
Mr. Simon Murray	Beneficial owner	Long position	5,000,000 <sup>(Note 4)</sup>	0.08%
Mr. Deng Yaobo	Beneficial owner	Long position	700,000,000 <sup>(Note 4)</sup>	11.71%

*Notes:*

1. These percentages have been calculated based on the total number of issued Shares as at the Latest Practicable Date, i.e. 5,976,355,230 Shares.
2. 5,000,000 shares among these Shares are held by Ground Up, Dr. Kan beneficially owns the entire issued share capital of Ground Up, therefore he is deemed to be interested in all the Shares held by Ground Up by virtue of the SFO. Dr. Kan is the chairman of the Board and an executive Director, Dr. Kan is also a director of Ground Up.
3. The short position represents private share options granted by Dr. Kan to Mr. Simon Murray (“Mr. Murray”), Mr. Deng Yaobo (“Mr. Deng”) and eight senior management of the Company.
4. These shares represent private option shares, which were beneficially owned by Dr. Kan, granted to Mr. Murray and Mr. Deng, upon the exercise in full of the rights pursuant to option deed agreements entered between Dr. Kan and each Mr. Murray and Mr. Deng. Mr. Murray is a non-executive Director of the Company, Mr. Deng is an executive Director and chief executive officer of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests and short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of SFO) which are required, pursuant to Section 352 of the SFO, to be entered in the registers referred to therein or are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

#### **Directors’ Interests in Shares in Associated Corporation of the Company**

Name of Director	Name of company in which interests were held	Nature of interests	Number of Shares held	Approximate percentage of interests in the capital of the associated corporation
Dr. Kan	Key Fit Group Limited	Beneficial owner	69,982,878	9.99%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors or chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### **3. DIRECTORS’ SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).



#### 4. DIRECTORS' INTERESTS IN THE ASSETS, CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

The followings are the contracts in which a Director is materially interested and which is significant in relation to the business of the Group:

- (a) the Shareholder's Loan agreements; and
- (b) the Loan Capitalisation Agreement.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any interest, directly or indirectly, in any assets which have, since 31 March 2023 (being the date to which the latest published audited consolidated financial statements of the Group were made up), been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group. None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

#### 5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

#### 6. LITIGATION

On 11 May 2023, the authorised representative of the Company had been duly served a statutory demand dated 28 April 2023 (the "**Statutory Demand**") from the solicitors acting on behalf of a creditor pursuant to Section 178(1)(a) or Section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of Laws of Hong Kong), demanding the Company to pay the amount of HK\$60,317,749 (the "**Debt**"), being a judgment debt against the Company's indirect wholly-owned subsidiary, which the Company acts as a guarantor pursuant to a judgment issued by the Higher People's Court of Tianjin Municipality (the "**Court**").

The Group has settled the dispute with the creditor amicably by reached a settlement agreement on 14 August 2023, a written judgement issued by the Court dated 10 August 2023 on the withdrawal and discontinued the underlining case has been received by the Company. Pursuant to the terms and conditions of the settlement agreement, the Group shall pay the Debts to the creditor in accordance with the agreed repayment schedule. Accordingly, the Statutory Demand has ceased to have effect on the Company.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, the Company was not engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Company.

**7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since 31 March 2023, being the date to which the latest published audited consolidated accounts of the Company were made up.

**8. EXPERT AND CONSENT**

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Optima Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Optima Capital Limited:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears;
- (b) did not have any shareholding in any member of the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company; and
- (c) did not have any direct or indirect interest in any assets which had been since 31 March 2023 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

**9. DOCUMENTS ON DISPLAY**

Copies of the following documents are available for inspection on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinahkpower.todayir.com](http://www.chinahkpower.todayir.com)) for a period of 14 days from the date of this circular:

- (a) the Loan Capitalisation Agreement;
- (b) the letter from the Independent Financial Adviser, the text of which is set out in this circular;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in this circular;

- (d) the written consent referred to in the paragraph headed “Expert and Consent” in this appendix; and
- (e) this circular.

**10. MISCELLANEOUS**

- (a) the registered office of the Company is at Cricket Square Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands;
- (b) the head office and principal place of business of the Company is located at 8th Floor, St. John’s Building 33 Garden Road Central, Hong Kong;
- (c) the Company’s branch share registrar in Hong Kong is Tricor Standard Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong;
- (d) the company secretary of the Company is Ms. Chan Mui who is an associate member of the Hong Kong Chartered Governance Institute and a fellow of the Association of Chartered Certified Accountants; and
- (e) the English text of this circular prevails over the Chinese text in case of inconsistency.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### CHINA HK POWER SMART ENERGY GROUP LIMITED

### 中國港能智慧能源集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 931)**

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “EGM”) of China HK Power Smart Energy Group Limited (the “Company”) will be held on Friday, 19 April 2024 at 5:00 p.m. at 8th Floor, St. John’s Building, 33 Garden Road, Central, Hong Kong for the purposes of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

1. “THAT

- (a) the Loan Capitalisation Agreement (the “**Loan Capitalisation Agreement**”) dated 7 March 2024 and entered into between the Company (as issuer) and Dr. Kan Che Kin, Billy Albert (the “**Subscriber**”) as the subscriber in relation to the conversion of the unsecured Shareholder’s Loans with an outstanding principal amount and accrued interest of HK\$300,000,000 as at the date of the Loan Capitalisation Agreement due from the Group to the Subscriber (the “**Repayment Amount**”) into the share capital of the Company (the “**Loan Capitalisation**”) involving the subscription (the “**Subscription**”) of an aggregate of 697,674,419 new shares to be issued and allotted by the Company (the “**Capitalisation Shares**”) at the Capitalisation Price of HK\$0.43 per Capitalisation Share, a copy of which is tabled at the EGM for identification purpose, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in, the Capitalisation Shares, the directors (the “**Directors**”) of the Company be and are hereby granted a specific mandate authorising the Directors to exercise all the powers of the Company to allot and issue the Capitalisation Shares to the Subscriber subject to the terms of the Loan Capitalisation Agreement (the “**Specific Mandate**”), with such Specific Mandate being in addition to and not prejudicing or revoking any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (c) any Director be and is hereby authorised to sign, execute, perfect and deliver all such documents, and do all such actions which are in their opinion necessary, appropriate, desirable or expedient for the implementation and giving effect to the Loan Capitalisation Agreement, the Loan Capitalisation, the allotment and issue of the Capitalisation Shares and the transactions contemplated thereunder, and to agree to the variation, amendment and waiver of any of the matters relating thereto that are, in the opinion of the Directors, appropriate, desirable or expedient in the context of the Loan Capitalisation Agreement and are in the best interests of the Company.”

For and on behalf of the Board  
**China HK Power Smart Energy Group Limited**  
**Deng Yaobo**  
*(Chief Executive Officer and Executive Director)*

Hong Kong, 27 March 2024

*As at the date of the Announcement, the Board comprises three executive Directors, namely Dr. Kan Che Kin, Billy Albert (Chairman), Mr. Deng Yaobo (chief executive officer) and Mr. Li Kai Yien, Arthur Albert; and one non-executive Director, namely Mr. Simon Murray; and three independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Chow Ching Ning and Mr. Lam Lum Lee.*

*Notes:*

1. A form of proxy for use at the EGM is enclosed.
2. Any member of the Company entitled to attend and vote at the EGM convened by this notice shall be entitled to appoint proxy to attend and vote instead of him in accordance with the Articles of the Company. A proxy need not be a member of the Company, but must be present in person to represent the member.
3. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.
4. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time fixed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should they so wish.
5. The above resolution will be voted by way of a poll at the EGM.
6. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 16 April 2024 to Friday, 19 April 2024, both days inclusive. In order to be eligible to attend and vote at the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 April 2024.