Gram Capital Limited
嘉林資本有限公司

24 January 2025

*To: The independent board committee and the independent shareholders of China Conch Environment Protection Holdings Limited*

Dear Sir/Madam,

## RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2025 Renewed Framework Agreement with Conch Cement (including the proposed annual caps) (the "**Transaction**"), details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 24 January 2025 (the "**Circular**") issued by the Company to the holders of shares of the Company (the "**Shareholders**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 27 December 2024, the Company (on behalf of the Group) and Conch Cement (on behalf of Conch Cement Group) agreed to renew the 2024 Renewed Framework Agreement by entering into the 2025 Renewed Framework Agreement with Conch Cement for a term of three years from 1 January 2025 (subject to obtaining the Independent Shareholders' approval at the EGM) to 31 December 2027.

With reference to the Board Letter, the Transaction constitutes continuing connected transactions of the Company and are subject to the annual review, reporting, announcement, and the independent shareholders' approval requirement under the Listing Rules.

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The Independent Board Committee comprising Mr. DING Wenjiang, Ms. WANG Jiafen and Ms. LI Chen (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transaction are on normal commercial terms and are fair and reasonable; (ii) whether the Transaction is in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve Transaction at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

**INDEPENDENCE**

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the Company's continuing connected transactions, details of which are set out in the Company's circular dated 17 February 2023. Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction.

Besides, apart from the advisory fee and expenses payable to us in connection with the aforesaid engagement, there is no arrangement whereby we shall be entitled to receive any other fees or benefits from the Company, their subsidiaries and/or associates.

Having considered the above, in particular (i) none of the circumstances as set out under Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the past engagement was only independent financial advisory engagement, we are of the view that we are independent to act as the Independent Financial Adviser.

**BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors/management of the Company (the "**Management**"). We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have



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also assumed that all statements of belief, opinion, expectation and intention made by the Directors and/or the Management in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Directors and/or the Management, which have been provided to us. Our opinion is based on the Directors' and the Management's representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transaction. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The 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 the 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 therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Conch Cement, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.



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## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transaction, we have taken into consideration the following principal factors and reasons:

### Information on the Group

With reference to the Board Letter, the Group is a leading enterprise in China that provides industrial solid and hazardous waste treatment in compliance with the principles of environmental protection and cost-effectiveness. The Group has pioneered the use of cement kiln co-processing services to facilitate the safe, harmless and efficient industrial solid and hazardous waste treatment.

Set out below are the Group's consolidated financial information for the two years ended 31 December 2023 and the six months ended 30 June 2024 (together with comparative figures), as extracted from the Company's annual report for the year ended 31 December 2023 (the "**2023 Annual Report**") and the Company's interim report for the six months ended 30 June 2024 (the "**2024 Interim Report**"):

| | For the six months ended 30 June 2024 *RMB'000* (unaudited) | For the six months ended 30 June 2023 *RMB'000* (unaudited) | Year-on-year change % | For the year ended 31 December 2023 *RMB'000* (audited) | For the year ended 31 December 2022 *RMB'000* (audited) | Year-on-year change % |
|---|---|---|---|---|---|---|
| Revenue | 804,007 | 970,784 | (17.18) | 1,881,556 | 1,729,598 | 8.79 |
| *— Industrial hazardous waste treatment services* | *558,627* | *631,658* | *(11.56)* | *1,220,163* | *1,241,852* | *(1.75)* |
| *— Industrial solid waste treatment services* | *197,293* | *293,516* | *(32.78)* | *568,674* | *463,153* | *22.78* |
| *— Comprehensive resource utilization* | *48,087* | *45,610* | *5.43* | *92,719* | *24,593* | *277.01* |
| Gross profit | 359,651 | 486,357 | (26.05) | 893,570 | 910,140 | (1.82) |
| Profit for the year/period | 92,304 | 224,439 | (58.87) | 304,013 | 360,463 | (15.66) |



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As illustrated in the above table, the Group's revenue was approximately RMB1,881.6 million for the year ended 31 December 2023 ("**FY2023**"), representing an increase of approximately 8.79% as compared to that for the year ended 31 December 2022 ("**FY2022**"). The aforesaid increases in the Group's revenue were mainly attributable to the increase in revenue from industrial solid waste treatment services and comprehensive resource utilization. The increase in the Group's revenue from industrial solid waste treatment services was primarily due to the Group's projects in Chaohu, Shaoguan and Qingyuan being put into operation; while the increase in the Group's revenue from comprehensive resource utilization was primarily due to the improvement in the operating quality of the project in Ninghai, and the operation of alternative fuel injection services and ancillary product projects in Qingyuan, Chizhou, Wuhu and Fanchang.

Notwithstanding the aforesaid increase in the Group's revenue, the Group's gross profit decreased from approximately RMB910.1 million for FY2022 to approximately RMB893.6 million for FY2023, representing a decrease of approximately 1.82%; while the Group's gross profit margin decreased from approximately 52.62% for FY2022 to approximately 47.49% for FY2023, representing a decrease of approximately 5.13 percentage points. With reference to the 2023 Annual Report, the decrease in the Group's gross profit was primarily due to (i) decrease in gross profit margin of general hazardous waste services (under industrial hazardous waste treatment services) as a result of the intensified competition in the market, thereby resulting in decrease in prices; and (ii) decrease in gross profit margin of oil sludge treatment services (under industrial hazardous waste treatment services) as a result of the insufficient oil sludge for treatment.

Along with the decrease in the Group's gross profit, other income and share of profit of associates; and the increase in impairment loss on trade and bills receivables and finance costs, the Group's profit for FY2023 decreased by approximately 15.66% as compared to that for FY2022.

The Group's revenue was approximately RMB804.0 million for the six months ended 30 June 2024 ("**1H2024**"), representing a decrease of approximately 17.18% as compared to that for the corresponding period in 2023. With reference to the 2024 Interim Report, such decrease was primarily due to (i) decrease in prices of general hazardous waste treatment services (under industrial hazardous waste treatment services) as a result of the intensified market competition, the decrease in emergency response business and the additional time of shifting suspension of cement kiln, affecting the treatment of hazardous waste; (ii) decrease in revenue from industrial solid waste treatment services as a result of the delays in the implementation of some intended orders for disposal of contaminated soil. As a result of the foregoing, the Group's gross profit for 1H2024 decreased by approximately 26.05%; the Group's gross profit margin for 1H2024 decreased by approximately 5.37 percentage points; and the Group's profit for 1H2024 decreased by approximately 58.87%, as compared to those for the corresponding period in 2023.

With reference to the 2024 Interim Report, with focus on the development of the Group's major business, the Group will further improve its diversified industrial layout by fully leveraging the opportunities for industrial consolidation, and making efforts in merger and acquisition as well as establishment of new companies simultaneously, so as to focus on the advancement on extension and supplement to industrial chains. In terms of comprehensive resource utilization and other business, the Group will continue to expand the business scope to create new growth in revenue. The Group will, among other things, make deployment of alternative fuel projects in region where cement kilns are relatively concentrated with relatively short transportation distance, and accelerate the implementation of green sorting center projects.

**Information on Conch Cement**

With reference to the Board Letter, Conch Cement is principally engaged in the production and sales of cement, commodity clinker, aggregate and concrete. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the Latest Practicable Date, Conch Cement is the controlling shareholder of the Company and holds and controls approximately 27% of the voting rights attached to all issued shares of the Company together with its subsidiaries and Parties Acting in Concert (as defined in the Takeovers Code). Conch Cement is ultimately controlled by the State-owned Assets Supervisions Administration Commission of the People's Government of Anhui Province (安徽省人民政府國有資產監督管理委員會).

**Reasons for and benefit of the Transaction**

With reference to the Board Letter, the construction of China's ecological civilization is entering a critical period in which carbon reduction is the key strategic direction. The research and use of alternative fuels and alternative fuel filling-up services will be a necessary path for traditional enterprises to achieve energy saving and carbon reduction. The Group closely follows the pace of the national development of green and low-carbon industries, actively seize the new industry development opportunities driven by green development and "dual carbon" goals, and accelerate the layout of alternative fuel projects.

Furthermore, as stated in the Board Letter, the main sources of alternative fuels in the cement industry are urban solid waste, industrial waste, and biomass. By leveraging the Group's market-leading position and advanced technology in solid and hazardous waste treatment, the Group can better assist Conch Cement Group in increasing the use of alternative fuels and achieving energy saving and carbon reduction goals. Furthermore, cooperation with Conch Cement Group in alternative fuel filling-up services and products will enable the Group to increase revenue in the alternative fuel business segment, accelerate the Group's layout in the alternative fuel industry, and further expand its market share.

On the supply side, we noted from the 2024 Interim Report that the Group actively sought market opportunities and conducted extensive market research on alternative fuels, taking into account the actual needs of cement enterprises. As at 30 June 2024, the Group had three alternative fuel processing projects in operation, with treatment capacity of 230,000 tonnes per annum in aggregate. As further advised by the Management, the Group also in the progress of construction new alternative fuel processing projects.

On the demand side, we noted from Conch Cement's environmental, social and governance report for FY2023 that, driven by the national "carbon peaking and carbon neutrality" strategic goals, the Conch Cement Group strove to deeply integrate the modern cement industry with the environmental protection industry and actively led the industry's low-carbon operation practice. Conch Cement Group had continuously increased its investment in the exploration of clean energy and the use of alternative fuels, and promote the transformation of its energy structure. As at 31 December 2023, Conch Cement Group had completed the construction of alternative fuel projects in 10 subsidiaries and advanced the technological improvement of alternative fuel in 17 subsidiaries in an orderly manner. A total of 53 companies of Conch Cement used alternative fuels and the total consumption of alternative fuels reached 2.42 million tons, accounted for approximately 8% of its coal consumption. In addition, Conch Cement had set a target for the use of alternative fuels with the plan of the percentage of alternative fuels to raw coal reaching 15% by 2030.

As advised by the Management, the Transaction will be entered into in the ordinary and usual course of business of the Group and on a frequent basis. Therefore, the Management consider that it would be less burdensome for the Company to enter into the Transaction than to make separate disclosure of each relevant transactions and to obtain the approvals from the Independent Shareholders, as required by the Listing Rules.

In light of the above, we consider that the Transaction is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

**Principal terms of the Transaction**

Set out below are the principal terms of the Transaction, details of which are set out under the section headed "2025 Renewed Framework Agreement with Conch Cement" of the Board Letter.

| | |
|---|---|
| Date: | 27 December 2024 |
| Parties: | (1) The Company (on behalf of the Group); and<br>(2) Conch Cement (on behalf of the Conch Cement Group) |
| Term: | From 1 January 2025 (subject to obtaining the Independent Shareholders' approval at the EGM) to 31 December 2027 |



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| | |
|---|---|
| Subject matter: | The Conch Cement Group agreed to provide alternative fuel filling-up services and products by the Group, which primarily include filling up cement kilns with alternative fuels (including drying sludge), providing the channel service to transport alternative fuels into cements kilns, replacing coal fuel for cement kilns with alternative fuel products. Other details such as the precise scope of services and products, fee calculation, method of payment etc. will be agreed between the relevant parties separately. |
| Payment and settlement terms: | Payment and settlement terms under the 2025 Renewed Framework Agreement with Conch Cement shall be specified in each of the implementation agreements to be entered into under the 2025 Renewed Framework Agreement with Conch Cement in due course. |

*Pricing policy*

With respect to the service fees payable for the alternative fuel filling-up services, the service fee payable by the Conch Cement Group shall be determined on the basis of market-based pricing principle, and by adding a reasonable profit over the cost. The costs are mainly determined, after arm's length negotiation between the parties, on the basis of the operating cost and additional cost, including fees in relation to depreciation, auxiliary material costs and labor costs. The profits are mainly determined based on the costs above and a reasonable profit rate, and are ultimately determined based on the negotiations between the parties to the transactions in accordance with normal commercial terms. Based on previous transactions, the profit rate for such services generally ranged from 10% to 15%.

With respect to the purchase fees payable for the products, the purchase fees payable by the Conch Cement Group shall be determined based on arm's length negotiation between the parties with reference to (i) the market prices of such products; and (ii) the unit price, type and quality of such products. If there are no comparable market prices, the unit price of products shall be determined based on the production costs (including but not limited to material costs and administrative costs) and a reasonable profit rate, and are ultimately determined based on the arm's length negotiations between the parties to the transactions in accordance with normal commercial terms. Based on previous transactions, the profit rate for such products generally ranged from 6% to 10%.



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As noted from the Board Letter, the estimated ranges of profit rate for both product and services were determined after arm's length negotiation between the parties with reference to the market prices of similar or comparable transaction with Independent Third Parties and the historical profit rates of the corresponding services and products. The estimated profit rates are expected to be within the historical profit rates of the corresponding services and products. The Group will also endeavour to follow up on the profit rates of similar and comparable services and products of peer companies in the industry to ensure that the fees are fair and reasonable.

We understood from the Management that the Group currently only provide alternative fuel and the ancillary filling-up services to Conch Cement Group and the revenue from such activities accounted for a small portion of the Group's total revenue. In determining the selling price of alternative fuels, the Group had made and will make reference to the market price of alternative fuels quoted/sold by Independent Third Parties. Given the aforesaid and that the Group would be able to realise reasonable profits after considering the associated costs of providing the products and services, we consider the existing pricing policy is on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

We understood from the Management that there were limited transaction volume and cooperated projects between the Group and the Conch Cement Group, as evidenced by the transaction amount of approximately RMB15.74 million for FY2023, which we considered to be insufficient for us to assess the effectiveness of the internal control procedures for the Transaction. As such, for our due diligence purpose, we obtained a list of projects which transactions under the 2024 Renewed Framework Agreement were conducted between the Group and the Conch Cement Group during the nine months ended 30 September 2024, being an exhaustive list of projects available to the Management at the time the 2024 Renewed Framework Agreement was entered into. From the aforesaid list, we randomly selected three projects in respect of alternative fuel filling-up services and three projects in respect of sale of alternative fuel. We consider the samples size are sufficient for our analyses purposes given that (i) the number of selected projects accounted for approximately 27% of total number of alternative fuel filling-up services conducted between the Group and the Conch Cement Group for the nine months ended 30 September 2024; and (ii) the number of selected projects in respect of sale of alternative fuel is three out of four projects for the nine months ended 30 September 2024 and is in line with the number of selected projects in respect of alternative fuel filling-up services. Upon our further request, we obtained (i) three sets of transaction documents in respect of the provision of alternative fuel filling-up services, together with the underlying cost breakdown (primarily consisted of staff costs, electricity costs, depreciation and material costs); and (ii) three sets of transaction documents in respect of the sale of alternative fuel, together with the relevant production cost breakdown (primarily consisted of alternative fuel costs, value-added tax, depreciation and staff costs), for comparison. Based on the transaction documents reviewed, we noted that the pricing basis for alternative fuel filling-up services and alternative fuels were based on cost-plus profit margin and the profit margins were within the aforementioned profit margin range for products and services respectively.

The Group established certain internal control procedures to ensure that the pricing of the Transaction is fair and reasonable, in particular (i) the Board and various internal department of the Company (including finance, legal and internal control department) are responsible for the control and daily management of the continuing connected transactions (including the Transaction); (ii) the Group will constantly research prevailing market conditions and practices and make reference to the pricing and terms between the Group and the Independent Third Parties for similar transactions to ensure that the pricing and terms offered to the Conch Cement Group are fair, reasonable and are no more favourable than those to be offered to Independent Third Parties; and (iii) the Management will also regularly review the pricing policies of the Transaction. Details of the internal control measures are set out under the section headed "Internal Control Measures" of the Board Letter. We consider the effective implementation of the internal control procedures will ensure the fair pricing of the Transaction.

With reference to the 2023 Annual Report, the auditor of the Company performed agreed-upon procedures regarding the continuing connected transactions (including the Transaction) entered into by the Group for FY2023, in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued an unqualified letter containing their conclusions in respect of the continuing connected transactions to the Board in accordance with Rule 14A.56 of the Hong Kong Listing Rules (the "**Auditor's Confirmation**"). Furthermore, the independent non-executive Directors had also reviewed the Group's continuing connected transactions (including the Transaction) for FY2023 and confirmed that these transactions had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) according to the agreement governing the transaction on terms that are fair and reasonable and in the interests of the Shareholders as a whole (the "**INEDs' Confirmation**").

Based on the due diligence on the historical transaction for the nine months ended 30 September 2024 (and that no abnormal items were observed from the relevant costs breakdown), the Auditor's Confirmation and the INEDs' Confirmation, we do not doubt the effectiveness of the internal control procedures for the Transaction.



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**Proposed annual caps**

Set out below are (i) the historical amounts of the Transaction for each of the year ended 31 December 2023 and 2024; and (ii) the proposed annual cap for the Transaction for the three years ending 31 December 2027:

| | For the year ended 31 December 2023<br>*RMB million* | For the year ended 31 December 2024 ("FY2024")<br>*RMB million* |
|---|---|---|
| Historical transaction amount | 15.74 | 60.24 *(Note)* |
| Existing annual caps | 28.50 | 79.00 |
| Utilisation rate | 55.23% | 76.25% |

| | For the year ending 31 December 2025 ("FY2025")<br>*RMB million* | For the year ending 31 December 2026 ("FY2026")<br>*RMB million* | For the year ending 31 December 2027 ("FY2027")<br>*RMB million* |
|---|---|---|---|
| Proposed annual caps | 189 | 259 | 282 |

*Note:* Based on the unaudited management accounts of the Group for FY2024.

With reference to the Board Letter, the proposed annual caps for the Transaction for the three years ending 31 December 2027 were determined with reference to various factors. Details of the determination basis of the proposed annual caps are set out under the sub-section headed "Proposed Annual Cap and Basis of Determination" of the section headed "2025 Renewed Framework Agreement with Conch Cement" of the Board Letter.

According to the above table, the utilisation rates of the existing annual caps were approximately 55.23% and 76.25% for FY2023 and FY2024, respectively. Although the historical transaction amounts for FY2023 and FY2024, in terms of monetary value, is relatively low as compared to the proposed annual caps for the three years ending 31 December 2027, we understood from the Management that with the promotion of green and low-carbon transformation of the cement production industry, and based on Conch Cement Group's plans for accelerating the promotion of using alternative fuels, it is expected that the use of the Group's alternative fuels and the alternative fuel filling-up channel services by Conch Cement Group will greatly increase.



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Upon our request, we obtained a calculation for the proposed annual cap for the three years ending 31 December 2027, setting out details of the estimated transaction amount for the three years ending 31 December 2027 (the "**Calculation**"). We noted that:

- the proposed annual caps were formulated based on the estimated transaction amounts of the Transaction, primarily comprised of (a) the estimated procurement amount of alternative fuel by Conch Cement Group (accounting for approximately 78.5%, 82.4% and 83.6% of the total estimated transaction amount for FY2025, FY2026 and FY2027, respectively); and (b) the estimated amount of alternative fuel filling-up channel services to be provided by the Group (accounting for approximately 21.5%, 17.6% and 16.4% of the total estimated transaction amount for FY2025, FY2026 and FY2027, respectively).

- a round-up buffer of approximately 3% was also incorporated in the proposed annual caps for each of the three years ending 31 December 2027.

We also understood from the Management that the procurement amount of alternative fuel accounted for no less than 55% of the historical transaction amount for FY2024. The significant increase in the annual caps amount was primarily to cater for the estimated procurement amount of alternative fuel by Conch Cement Group.

We noted that there are four existing projects which the Group had supplied alternative fuels to Conch Cement Group for 9M2024. With the promotion on the use of alternative fuels, backed by a series of favourable policies issued by the Chinese government to promote green and low-carbon industries, including energy conservation and carbon reduction in the cement industry, the Conch Cement Group planned to increase the usage of alternative fuels to up to 15% by 2030 and the estimated consumption of alternative fuels by the existing and new projects of Conch Cement Group is expected to drastically increase. The estimated procurement amounts of these projects are formulated based on (i) the daily cement production output of these projects and the relevant fuel requirement; (ii) the estimated quantity of alternative fuels required based on the conversion ratio between coal and alternative fuel and the assumption that 15% of the fuels requirement shall be met by alternative fuels; and (iii) the estimated unit price of alternative fuels.

We understood from the Management that Conch Cement Group's fuel consumption for each tonne of cement is approximately 82kg of standard coal (i.e. coal with 7,000 kilocalories per kilogram) for each tonne cement as disclosed by Conch Cement during one of its investors' interactions; while alternative fuel contains energy of 4,000 kilocalories per kilogram on average. As noted from Conch Cement's annual report for FY2023, Conch Cement Group's clinker (being the raw material for the production of cement that uses alternative fuels) production capacity was 272 million tonnes as at 31 December 2023. Based on the aforesaid fuel consumption of Conch Cement Group and on the basis that alternative fuel shall account 15% of Conch Cement Group's fuel consumption, Conch Cement Group's demand for alternative fuel was approximately 5.9 million tonnes (the "**Implied Annual Demand**").



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For our due diligence purpose, we obtained a list of Conch Cement Group's projects which the Group cooperate and will cooperate with in providing alternative fuels and filling-up services (the "**Cooperate Projects**"), showing their location and daily cement production capacity ("**Project List**"). After cross-checking the Project List against the estimated quantity of alternative fuels to be procured for each individual projects as set out in the Calculation, we noted that Conch Cement Group's demand for alternative fuels under the Cooperate Projects (calculated based on their daily production capacity of not less than 200,000 tonnes of cement in aggregate) only accounted for a small portion of the Implied Annual Demand and is far greater than the estimated procurement quantity of alternative fuel for each of the three years ending 31 December 2027 as set out in the Calculation.

We also noted from the 2024 Interim Report that, as at 30 June 2024, the Group had three alternative fuel processing projects in operation, with production capacity of 230,000 tonnes per annum in aggregate. The Group's annual alternative fuel treatment capacity is insufficient to supply the estimated quantity of alternative fuel under the Transaction for the three years ending 31 December 2027. Despite the aforesaid, we understood from the Management that the Group has three alternative fuel processing projects that are expected to commence operation in 2025, with production capacity of 250,000 tonnes per annum in aggregate, thus the Management is of the view that Group is able to supply the estimated quantity of alternative fuel for each of the three years ending 31 December 2027.

Based on the aforesaid, we do not doubt the reasonableness of the estimated quantity of alternative fuel to be supplied by the Group to Conch Cement Group for the three years ending 31 December 2027.

In respect of the estimated unit prices of alternative fuel, we noted that the estimated unit prices are different among different geographical regions within the PRC. In addition, we also noted that estimated unit prices of alternative fuel for each of the three years ending 31 December 2027 were formulated based on those for FY2024, with estimated annual growth rate of approximately 5% adopted (as the case may be) to cater for any possible price fluctuation. As such, we do not doubt the reasonableness of the estimated unit prices of alternative fuel for each of the three years ending 31 December 2027.

We understood from the Management that the estimated amounts of alternative fuel filling-up channel services for the three years ending 31 December 2027 were formulated based on the estimated quantity of alternative fuel to be filled into the relevant cement kiln by the Group; with estimated unit price for the three years ending 31 December 2027 being the same as the historical unit price of the relevant projects.

Having considered the above factors, we are of the view that the proposed annual caps for the three years ending 31 December 2027 are fair and reasonable.



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Shareholders should note that as the proposed annual caps for the three years ending 31 December 2027 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2027, and they do not represent forecasts of costs to be incurred from the Transaction. Consequently, we express no opinion as to how closely the actual costs to be incurred from the Transaction will correspond with the proposed annual caps.

In light of the above, we are of the view that the terms of Transaction are on normal commercial terms and are fair and reasonable.

**Listing Rules implication**

The Management confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the amounts of the Transaction must be restricted by the annual caps for the period concerned under the 2025 Renewed Framework Agreement with Conch Cement; (ii) the terms of the Transaction must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Transaction must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transaction (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the annual caps.

In the event that the amounts of the Transaction are anticipated to exceed the annual caps, or that there is any proposed material amendment to the terms of the Transaction, as confirmed by the Management, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transaction and thus the interest of the Independent Shareholders would be safeguarded.

**RECOMMENDATION**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transaction are on normal commercial terms and are fair and reasonable; and (ii) the Transaction is in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transaction and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
**Gram Capital Limited**

**Graham Lam**
*Managing Director*

*Note:* Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.



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