

The Independent Board Committee and  
the Independent Shareholders of  
CK Asset Holdings Limited

8 April 2026

Dear Sirs,

## CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION

### DISPOSAL OF UK POWER NETWORKS

#### I. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to CKA Sub's Disposal. The terms used in this letter shall have the same meaning as defined in the circular, of which this letter forms part, unless the context requires otherwise.

As at the Latest Practicable Date, the issued share capital of the Target is owned as to 20%, 40% and 40% by CKA Sub, CKI Sub and PAH Sub, respectively.

Pursuant to the Share Purchase Agreement, each of the Sellers has agreed severally to sell its respective Sale Shares, and the Purchaser has agreed to purchase such Sale Shares from each of the Sellers. The Sale Shares together represent 100% of the issued share capital of the Target.

Each of the Sellers has also agreed to sell, or procure the sale of, each Shareholder Debt Instrument registered in the name of the relevant Shareholder Debt Instrument Holder, and the Purchaser has agreed to purchase each such Shareholder Debt Instrument from that relevant Shareholder Debt Instrument Holder.

As one or more of the applicable percentage ratios of the Company in respect of CKA Sub's Disposal exceed 5% but all of the applicable percentage ratios are less than 25%, CKA Sub's Disposal constitutes a discloseable transaction of the Company and is subject to the announcement and notification requirements but is not subject to the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

CKHH has been deemed by the Stock Exchange to be a connected person of the Company under the Listing Rules. As wholly-owned subsidiaries of CKHH held approximately 75.67% of the issued share capital of CKI as at the Latest Practicable Date, CKI may also be regarded as a connected person of the Company by virtue of it being a subsidiary of CKHH. Accordingly, CKA Sub's Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. On this basis, as one or more of the applicable percentage ratios of the Company in respect of CKA Sub's Disposal exceed 5%, CKA Sub's Disposal will be subject to the Company's compliance with the announcement, reporting, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent board committee of the Company, comprising all independent non-executive directors of the Company, save for (i) Mr. Cheong Ying Chew, Henry, Mrs. Kwok Eva Lee and Mrs. Sng Sow-mei alias Poon Sow Mei, who are also independent non-executive directors of CKI; and (ii) Mr. Stephen Edward Bradley who is also an independent non-executive director of PAH, has been formed to advise the independent shareholders of the Company on CKA Sub's Disposal on whether the terms of CKA Sub's Disposal are on normal commercial terms, are fair and reasonable, and in the interests of the Company and its Shareholders as a whole, and how they are recommended to vote on the relevant resolution to be proposed at the forthcoming EGM convened to approve CKA Sub's Disposal. We have been appointed to advise the Independent Board Committee and the Independent Shareholders accordingly.

In formulating our recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Company. We have also discussed with the management of the Company, among other things, the Company's prospects and the background to, and reasons for, and benefits of, the CKA Sub's Disposal. We have also assumed that the information and representations contained or referred to in this letter were true and accurate at the time they were made and continued to be so at the date of this letter. We have reviewed, amongst other things, (i) published information on the Target Group, including its audited annual financial statements for the three financial years, the last of which ended on 31 March 2025 and the interim results of three of its subsidiaries, being London Power Networks PLC, South Eastern Power Networks PLC and Southern Power Networks PLC, for the six months ended 30 September 2025; (ii) the disclosed historical financials of the Target Group for the year ended 31 December 2025 in the section headed "3. *Information of the Target Group*" in the Letter from the Board; (iii) the published financial statements of the Group; (iv) the information in the Announcement; and (v) the precedent transactions involving licensed electricity Distribution Network Operators ("DNO(s)") in the United Kingdom (the "UK"). We have sought and obtained confirmation from the Company that no material facts have been omitted from the information provided to us. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in this circular and to provide a reasonable basis for our opinion and advice. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have not, however, conducted an independent investigation into the business and affairs of the Group and the Target Group, and, or the associates of either of them, nor have we carried out any independent verification of the information supplied.

Apart from professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, directors, chief executive, substantial shareholders or any associate of any of them. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. Save for this engagement in relation to CKA Sub's Disposal, there had been no other engagements between the Company and us during the two years prior to the Latest Practicable Date. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

## II. BACKGROUND

### (i) Background of the Disposal

After trading hours on 25 February 2026 and before trading hours on 26 February 2026 in Hong Kong, London and Paris, the Board announced that CKA Sub (an indirect wholly-owned subsidiary of the Company), CKI Sub (an indirect wholly-owned subsidiary of CKI), PAH Sub (an indirect wholly-owned subsidiary of PAH), the Purchaser and the Purchaser's Guarantor entered into the Share Purchase Agreement in relation to the Disposal.

### (ii) Information of the Group

The Group is a leading multinational conglomerate that has diverse capabilities with business activities presently encompassing property development and investment, hotel and serviced suite operation, property and project management, pub operations and investment in infrastructure and utility asset operations.

CKA Sub is an indirect wholly-owned subsidiary of the Company. CKA Sub is an investment holding company.

### (iii) The Purchaser, the Purchaser's Guarantor and Engie

Each of the Purchaser and the Purchaser's Guarantor is directly or indirectly ultimately fully-owned by Engie. Each of the Purchaser and the Purchaser's Guarantor is a holding company.

Engie is a major participant in the energy transition sector, whose purpose is to accelerate the transition towards a carbon-neutral economy. With more than 90,000 employees in 30 countries, the Engie group covers the entire energy value chain, from production to infrastructures and sales. Engie combines complementary activities: renewable electricity

and green gas production, flexibility assets (notably batteries), gas and electricity transmission and distribution networks, local energy infrastructures (heating and cooling networks) and the supply of energy to individuals, local authorities and businesses.

Save as disclosed in the section headed “7. Implications under the Listing Rules” in the Letter from the Board, to the best of the knowledge, information and belief of the Board, having made all reasonable enquiries, the Purchaser, the Purchaser’s Guarantor, Engie and their respective ultimate beneficial owner are third parties independent of the Company and its connected persons under the Listing Rules.

#### (iv) Information of the Target Group

##### *Background*

The principal business of the Target Group is the distribution of electricity across London, the South East and the East of England. The Target Group owns and maintains electricity networks across London, the South East and the East of England. The Target Group’s network is approximately 192,000 kilometres in length and covers an area of over 29,000 square kilometres, serving 8.5 million homes and businesses. The Target Group also has a non-regulated business – UK Power Networks Services, which designs, builds, owns and operates private networks for both public and private sector clients.

Set forth below is the breakdown of the Target Group’s revenue and earnings before interest, taxes, depreciation and amortisation (“**EBITDA**”) for the three financial years ended 31 March 2025 based on the audited annual reports of the Target Group:

<i>(GBP million)</i>	<b>For the financial year ended 31 March</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
Revenue	2,194	1,825	2,463
EBITDA	1,410	1,170	1,819

*Sources: Annual reports of the Target Group for the financial years ended 31 March 2024 and 2025*

The Target Group operates within a regulated environment with the majority of its revenue being set as part of a price control review by the industry regulator, the Office of Gas and Electricity Markets (“**Ofgem**”). Ofgem, as the regulator of the Target Group, sets a cap on the revenues that a license distributor is permitted to collect over a multi-year “price control period” (“**Allowed Revenues**”) under a performance based regulatory framework known as “Revenue = Incentives + Innovation + Outputs” (“**RIIO**”), which determines the Allowed Revenues, investment parameters, and performance targets

for monopoly energy network operators in the UK over a specified regulatory period. Allowed Revenues comprises baseline revenue and certain annual adjustment factors. The baseline revenue is established at the start of the price control period using prevailing macroeconomic inflation forecasts, and determined by reference to a number of factors including the capital expenditure plans of the business (the extent to which the capital expenditure is added to the regulatory asset value (“RAV”)<sup>1</sup> is governed by Ofgem), an efficient level of operating costs, the cost of financing the business and a return on the RAV. The annual adjustment factors primarily comprise a true-up mechanism to adjust for actual inflation on a delayed basis, an additional incentive-based revenue for strong operational performance and a correction factor to reconcile any over or under recovery of Allowed Revenues from prior periods. The performance of the regulated networks businesses is benchmarked against other licensed DNOs, with the most efficient networks establishing an “efficient frontier” or standard against which the other DNOs are evaluated. Ofgem sets allowances and a regime of potential incentives and penalties based on the detailed assessment of business plans submitted by the DNOs.

For the financial year ended 31 March 2025, the Target Group recorded a revenue of approximately GBP2,463 million and an EBITDA of approximately GBP1,819 million, representing a significant increase of approximately 35.0% and 55.5%, respectively, as compared to the previous financial year. Such increase in financial performance in the financial year ended 31 March 2025 was due in large measure to an increase in revenues collected in the period primarily attributable to the delayed collection of under-recovered inflation allowances.

The first RIIO price control period for electricity distribution networks in the UK, introduced by Ofgem (“RIIO-ED1”)<sup>2</sup>, ran from 1 April 2015 to 31 March 2023, and the Target Group is currently operating under the second RIIO price control period (“RIIO-ED2”)<sup>3</sup>, which runs from 1 April 2023 to 31 March 2028. During the bulk of the RIIO-ED1 period from 2015 to 2021, the UK Retail Price Index (“RPI”), the inflation index referenced by Ofgem to set Allowed Revenues, was relatively stable and predictable,

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1 In the UK’s regulated electricity distribution sector, RAV is a regulatory measure of the asset base recognised by Ofgem that a regulated network company uses to provide its regulated services, for determining the return which the operator is permitted to earn and the capital which it is permitted to recover over time, and is therefore distinct from the statutory total assets or net asset value shown in the financial statements.

Under the RAV regulated framework, Ofgem determines, for each relevant price control period, the applicable capitalisation rates and regulatory methods under the relevant price control framework, which in turn govern the extent to which expenditure in relation to assets required to deliver the licensed services (in this case for electricity distribution), depreciation and inflation adjustments have on the RAV and the basis on which such RAV is recovered over time through Allowed Revenue, which in turn underpins a substantial part of the DNO’s accounting revenue from its regulated business.

Accordingly, the RAV represents a key factor in determining the future Allowed Revenue of the regulated business and, in turn, its earnings and cash flows, and may therefore be considered a more meaningful reference measure in the sector than statutory total assets.

2 ED1 means Electricity Distribution period 1.

3 ED2 means Electricity Distribution period 2.

ranging from approximately 1.0% to approximately 4.1% annually. In 2022 and 2023, however, RPI rose sharply to approximately 11.6% and approximately 9.7% respectively, and peaking at approximately 14.2% in October 2022, driven in part by COVID-19 disruptions and surging energy prices caused by geopolitical instability, and in particular, the war in Ukraine. Because actual inflation exceeded Ofgem's initial forecasts, the resulting two-year lagged true-up mechanism triggered a much larger than normal revenue recovery during the financial year ended 31 March 2025.

For context, Ofgem has switched its reference inflation index to the UK Consumer Prices Index including owner occupiers' housing costs ("CPIH"), for the price control period of RIIO-ED2. The CPIH followed the same trend as the RPI, recording high inflation of approximately 7.9% and approximately 6.8% respectively in 2022 and 2023, and spiking at approximately 9.6% in October 2022, as compared to around approximately 0.4% to approximately 2.5% on an annual basis from 2015 to 2021.

To illustrate the effects of delayed inflation and incentive true-up recovery on the March 2025 figures, based on relevant disclosures in the Letter from the Board, the unaudited EBITDA of the Target Group for the year ended 31 December 2025 is normalised to approximately GBP1.3 billion. This figure is approximately 28.5% lower than the EBITDA for the financial year ended 31 March 2025, though it still represents an increase of approximately 11.2% as compared to, the corresponding figures for the financial year ended 31 March 2024.

It should be noted that regulated utilities in the UK are generally impacted by the true-up recoveries but to differing degrees. Accordingly, this factor should be borne in mind when comparing relative performance.

For the financial year ended 31 March 2024, the Target Group recorded a revenue of approximately GBP1,825 million and an EBITDA of approximately GBP1,170 million, representing a decrease of approximately 16.8% and approximately 17.1%, respectively, as compared to the previous financial year. Such decrease was mainly attributable to (a) decrease in turnover due to (i) the reduction in revenue relating to the supplier of last resort scheme operated by Ofgem and (ii) the impact of the new regulatory price control arrangements, including the profiling of revenue and lower permitted rates of return, and (b) higher inflationary and expenditure costs.

Set forth below illustrates the key financial information of the Target Group as at 31 March 2023, 2024 and 2025:

(GBP million)	For the financial year ended 31 March		
	2023	2024	2025
<b>Total assets</b>	16,491	16,966	18,121
<b>Total liabilities</b>	11,472	12,026	12,537
<b>Net asset value</b>	5,018	4,940	5,584
<b>RAV</b> <sup>(note 1)</sup>	8,127	8,568	9,176
			<sup>(note 2)</sup>

Sources: Annual reports of the Target Group for the financial years ended 31 March 2024 and 2025

Notes:

1. RAV is the value ascribed by the relevant regulator to the capital employed in the company's regulated business (i.e. the regulated asset base).
2. The latest available RAV of the Target Group amounts to GBP9,492 million as at 30 September 2025, being the sum of the RAV published by each of the Target's underlying DNOs in their interim financial statements for the six months ended 30 September 2025.
3. Due to rounding, numbers presented may not add up, or subtract from, precisely to the totals indicated.

The total assets of the Target Group has shown an increasing trend in the past three financial years of which a significant portion of the assets comprised property, plant and equipment, in addition to goodwill and intangible assets, which together contributed approximately 92.4%, 94.2%, and 93.6% of the total assets as at 31 March 2023, 2024 and 2025, respectively.

The total liabilities of the Target Group also has shown an increasing trend in the past three financial years, of which a significant portion of the liabilities comprised external borrowings (excluding shareholder loans), accruals, and deferred income, which together contributed to about 78.3%, 79.1%, and 79.1% of the total liabilities as at 31 March 2023, 2024 and 2025, respectively.

The RAV is the net value of the capital invested in regulated assets by a utility company, less the accumulated depreciation of such assets allowed by Ofgem. It is an actuarial value calculated by Ofgem and is used to determine the prices that the utility companies can charge their customers. The RAV of the Target Group was approximately GBP4.4 billion as at 31 December 2010 and has increased to approximately GBP9.2 billion as at 31 March 2025, which represents a compound annual growth rate (CAGR) of approximately 5.3%.

### III. PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

The principal terms and conditions of the Share Purchase Agreement are summarised below. Please refer to the Letter from the Board set out in the circular for further details.

#### Subject matter

The Share Purchase Agreement dated 25 February 2026 involves, CKA Sub (an indirect wholly-owned subsidiary of the Company), CKI Sub (an indirect wholly-owned subsidiary of CKI and an indirect non-wholly owned subsidiary of CKHH), PAH Sub (an indirect wholly-owned subsidiary of PAH), each as Sellers, and the Purchaser and the Purchaser's Guarantor entered into the Share Purchase Agreement in relation to the Disposal of the Sale Shares and Shareholder Debt Instruments in relation to the Target. As at the date of the Announcement, the Target is owned as to 20%, 40% and 40% by CKA Sub, CKI Sub and PAH Sub, respectively. Each Seller has agreed severally to sell its respective Sale Shares, which together represent 100% of the issued share capital of the Target.

### CKA Consideration

The CKA Consideration for CKA Sub's Sale Shares and CKA Sub's Shareholder Debt Instruments shall be an amount in cash equal to the sum of:

- (i) Base CKA Consideration, being GBP2,109,600,000 (equivalent to approximately HK\$22,150,800,000); *plus*
- (ii) an amount equal to the interest that would have accrued if interest had been charged at a rate of 4% per annum on the Base CKA Consideration from (and excluding) 31 March 2025 up to (and including) the Closing Date, accruing daily; *less*
- (iii) the Known CKA Permitted Leakage Amount; *less*
- (iv) to the extent not deducted from the Base CKA Consideration under paragraph (iii) above, an amount equal to: (a) the Known CKA Leakage Amount (if any); plus (b) the Reimbursement in respect of such Known CKA Leakage Amount; *less*
- (v) where Closing occurs on or after 1 July 2026 solely due to one (or more) of the Seller failing to convene the relevant extraordinary or special general meetings of the Company, CKHH, PAH and CKI to approve the relevant resolution(s) in connection with the Disposal on or before 30 June 2026 (other than where the failure to do so was a direct result of a breach by the Purchaser of its obligations to provide information, documentation and other assistance in accordance with the Share Purchase Agreement), an amount equal to the CKA Permitted Leakage Reimbursement Amount.

If Closing occurs on or before 30 June 2026, the Known CKA Permitted Leakage Amount (which consists of distributions made by the Target Group to the Group in 2025, and to be made by the Target Group to the Group before 30 June 2026, if any) will be deducted from the Base CKA Consideration, and no interest will be charged on that amount and deducted from the Base CKA Consideration. However, if Closing takes place on or after 1 July 2026 for any of the reasons described in adjustment item (v) above, then a 4% per annum interest will be charged on the Known CKA Permitted Leakage Amount from 1 July 2026 up to (and including) the Closing Date and deducted from the Base CKA Consideration. In addition, any Known CKA Leakage Amount in excess of the Known CKA Permitted Leakage Amount will also be charged with a 4% per annum interest from the date on which the leakage occurred up to the Closing Date and deducted from the Base CKA Consideration.

The amount of the CKA Consideration allocated to each CKA Sub's Shareholder Debt Instrument shall be an amount equal to the aggregate of all principal, interest, fees and other amounts outstanding in relation to that Shareholder Debt Instrument as at Closing.

The amount of the CKA Consideration allocated to CKA Sub's Sale Shares shall be an amount equal to the CKA Consideration less the amount of the CKA Consideration allocated to all of CKA Sub's Shareholder Debt Instruments. The CKA Consideration is payable by the Purchaser to CKA Sub in cash at Closing pursuant to the Share Purchase Agreement.

We note that the disposal adopts a "locked box mechanism", under which the purchase price is fixed with reference to the financial position of the Target Group as at 31 March 2025 (the "**Locked Box Date**"). Item (ii) adds interest at 4% per annum on the Base CKA Consideration from (and excluding) the Locked Box Date up to (and including) the Closing Date, compensating CKA Sub for the time value of the consideration during this interim period. Items (iii) and (iv) deduct any value already extracted from the Target Group by or for the benefit of CKA Sub after the Locked Box Date, such as dividends or other distributions, so that CKA Sub does not receive the same economic benefit twice. Item (v) is a deduction that applies to a scenario where Closing is delayed to on or after 1 July 2026 because the Sellers have not convened the necessary shareholder meetings on time. In such case, the Sellers would bear the financial cost of the delay by way of a reduction to the CKA Consideration.

We consider the interest accrual under item (ii) protects CKA Sub from the time cost of a delayed Closing, while the leakage deductions under items (iii) and (iv) and the delay deduction under item (v) are protective of the Purchaser's interests and ensure an equitable allocation of economic risk between the parties.

CKA Consideration for CKA Sub's Disposal was determined based on arm's length negotiations between CKA Sub and the Purchaser and after taking into account factors including: (i) the prevailing market prices of similar assets; (ii) the performance of the business conducted by the Target Group; and (iii) the information set out under the section headed "*5. Reasons for and Benefits of CKA Sub's Disposal*" of the Letter from the Board.

### **Guarantees**

The Purchaser's Guarantor has agreed to guarantee the performance and observance of the obligations of the Purchaser under the Share Purchase Agreement. Engie has entered into the Purchaser Parent Guarantee, under which Engie will guarantee the payment of the purchase price by the Purchaser under the Share Purchase Agreement.

Each of the Company, CKI and PAH has entered into separate guarantee letters on 25 February 2026 (London time) addressed to the Purchaser, under which the Company, CKI and PAH guarantee the performance and observance of the obligations of CKA Sub, CKI Sub and PAH Sub under the Share Purchase Agreement, respectively.

### Conditions to Closing

Completion of the Disposal is conditional upon and subject to, among other things, (i) the passing of the relevant resolutions approving the Disposal by the respective independent shareholders (where applicable) at the general meetings of the Company, CKI, PAH and CKHH; (ii) obtaining of relevant clearance from the Secretary of State pursuant to the National Security and Investment Act 2021 of the UK; and (iii) in relation to the insurance business of UKPN Insurance, (a) the obtaining of the GFSC's approval or no-objection to the acquisition of UKPN Insurance by the Purchaser and all other persons who would at Closing become a shareholder controller of UKPN Insurance, or (b) the surrendering of the authorisation or licence of UKPN Insurance and discontinuing and winding up of the insurance business of UKPN Insurance such that the no objection from the GFSC is not required, on or before the Longstop Date of 30 June 2026 as subject to further extensions of three months by either parties. The Sellers are responsible for the fulfilment of Condition (i), being the Sellers' Shareholder Conditions, and the Purchaser is responsible for fulfilment of Conditions (ii) and (iii).

None of the Conditions may be waived by any party to the Share Purchase Agreement.

As at the Latest Practicable Date, save for the Condition (iii) above which had been satisfied, none of the Conditions had been satisfied.

Please refer to the section headed "2. Share Purchase Agreement" of the Letter from the Board for the details of the Disposal.

### Several Liability

Pursuant to the Share Purchase Agreement, the liability of the Sellers is several and not joint. Each of CKI, PAH and the Company has entered into a separate guarantee letter dated 25 February 2026 addressed to the Purchaser, pursuant to which each of CKI, PAH and the Company guarantees the performance and observance of the obligations of CKI Sub, PAH Sub and CKA Sub under the Share Purchase Agreement, respectively.

We were advised by the Management that the terms of the Share Purchase Agreement were arrived at after arm's length negotiations between the Sellers and the Purchaser. We noted that, under the several liability structure, each Seller will only have rights and obligations to the extent they relate to the portion of the Sale Shares and the Shareholder Debt Instruments it agrees to sell, and no Seller shall be responsible for the obligations or liabilities of any other Seller(s). Accordingly, CKA Sub's exposure is limited to its own proportionate obligations under the Share Purchase Agreement, and CKA Sub will not bear liability for any default or breach by CKI Sub or PAH Sub.

In view of the above, we consider that the several liability structure and the guarantee arrangement under the Share Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

**Exclusivity**

During the Exclusivity Period, each Seller undertakes that it shall not, and shall procure that its respective affiliates shall not, discuss, negotiate or solicit or accept any offer from any other third party for an acquisition (whether direct or indirect) of any of the issued share capital of the Target or any other material member of the Target Group, or of any assets, business or undertakings which are material in the context of the business of the Target Group taken as a whole.

The Exclusivity Period is defined with reference to three scenarios: (i) if Closing occurs under the Share Purchase Agreement, the period from the date of the Share Purchase Agreement until Closing; (ii) if Closing does not occur under the Share Purchase Agreement solely due to the non-satisfaction of one (or more) of the Sellers' Shareholder Conditions (other than where such failure to do so was a direct result of a breach by the Purchaser), the period of 18 months from the date of the Share Purchase Agreement; and (iii) if Closing does not occur under the Share Purchase Agreement for any other reason, the period from the date of the Share Purchase Agreement until termination of the Share Purchase Agreement.

**Sellers' liabilities and limitations**

The Share Purchase Agreement sets out various Seller's liabilities and the limitations to these liabilities. Key liabilities include but not limited to claims by the Purchaser in relation to (i) business warranties, and (ii) leakages relating to value transfers subsequent to the Share Purchase Agreement, except for pre-agreed ones, from the Target Group to the Sellers before Closing. These liabilities are subject to various time limitations and liability caps, with business warranty claims, other than key corporate information and capacity claims, limited to GBP1.

**Participation rights over properties**

The Sellers and Purchaser agree to use reasonable endeavours to reach a further agreement, consistent with agreed principal terms, under which the Sellers will retain right to co-develop certain properties of the Target Group with the Purchaser for up to a 50% interest, for a period of either (i) 10 years from the first development being initiated, (ii) 15 years from the Closing Date, or (iii) Purchaser ceases to control all or a majority of the Target's shares, whichever is earlier. We consider this is favourable for the Group and leverages its long track record and experience in property development to aim for further returns.

#### IV. REASONS FOR AND BENEFITS OF CKA SUB'S DISPOSAL

As set out in the Letter from the Board, the management of the Company considers that CKA Sub's Disposal is underpinned by an attractive valuation that realises significant accounting gain and cash proceeds that the Company may deploy in future investments. Completion of CKA Sub's Disposal is in line with the Company's corporate strategy to stand ready for quality diversified investment opportunities to enhance shareholders' value. In considering the reasons for, and benefits of, CKA Sub's Disposal, we have taken into account the following principal factors:

**(i) Realisation of Significant Accounting Gain and Cash Proceeds**

As set out in the Letter from the Board, the Group expects to report a gain of approximately HK\$8.4 billion arising from CKA Sub's Disposal. The Base CKA Consideration of GBP2,109.6 million (equivalent to approximately HK\$22,150.8 million) represents a substantial premium of approximately 88.9% over the Group's proportionate share of the Target Group's audited net asset value as at 31 March 2025 (being 20% of audited net asset value of GBP5,583.5 million).

The substantial cash proceeds to be received by the Group will enhance the Company's liquidity and financial flexibility, providing the Company with additional resources to pursue future investment opportunities.

**(ii) Alignment with the Company's Corporate Strategy**

As disclosed in the Company's latest interim report and results announcements, the Group is a leading multinational conglomerate with diversified business activities encompassing property development and investment, hotel and serviced suite operation, property and project management, pub operations and investment in infrastructure and utility asset operations. The Group has been pursuing a strategy of standing ready for quality diversified investment opportunities to enhance shareholder value.

CKA Sub's Disposal is consistent with this strategy in that it allows the Group to monetise a mature infrastructure investment at an attractive valuation. We note the consortium led by CKI has held the Target Group since November 2010, during which the Target Group's RAV has grown from approximately GBP4.4 billion as at 31 December 2010 to approximately GBP9.2 billion as at 31 March 2025. With respect to the Company's investment, the Company acquired its 20% interest in May 2021, during which the Target Group's RAV increased from approximately GBP6.5 billion as at 31 March 2021 to approximately GBP9.2 billion as at 31 March 2025. The terms of CKA Sub's Disposal, as discussed in sub-section (i) above, represent a substantial return on the Group's investment in the Target Group over a holding period of approximately five years. We also note that the Company maintains a strong balance sheet with a net debt to net total capital ratio of approximately 5.0% as at 30 June 2025, and the additional proceeds from CKA Sub's Disposal will further strengthen the Company's financial position and its capacity to capture future investment opportunities.

### (iii) Historical Cash Yield

The historical cash returns to the Company from its investment in the Target Group, comprising the Company's proportionate share of dividends and interest on shareholder loans, have represented approximately 2.8% to 3.0% of the Base CKA Consideration for CKA Sub's Disposal over the past three financial years ended 31 March 2025. We note that this is lower than the prevailing yield on the 20-year UK government gilts of approximately 5.2% on or around the Latest Practicable Date, suggesting that the ongoing cash yield from the Company's investment in the Target Group is modest relative to the prevailing risk-free rates of return.

Having taken into account the above factors, including (i) the realisation of a significant accounting gain and substantial cash proceeds, (ii) the alignment of the Disposal with the Company's stated corporate strategy, (iii) the historical cash yield, and (iv) the prospects and outlook of the Target Group and regulatory environment as discussed in the subsection "*Prospects and outlook of the Group upon the Disposal*" below, we are of the view that the reasons for, and benefits of, CKA Sub's Disposal, are fair and reasonable so far as the Independent Shareholders are concerned.

## V. FURTHER FACTORS AND CONSIDERATIONS IN THE ASSESSMENT OF THE CKA CONSIDERATION

### (a) Overview of the comparable analysis

In assessing the fairness and reasonableness of the valuation of the Disposal, we have considered two principal market-based valuation approaches: (i) an analysis of recent precedent transactions (the “Comparable Transaction(s)”); and (ii) an analysis of the comparable listed companies (the “Comparable Company(ies)”).

Given that the Purchaser will acquire 100% of the ownership and economic interests in the Target, and will, therefore, be able to determine its capital structure and control the deployment of cash flows, we consider enterprise value (“EV”) to be the most relevant metric for comparing the valuation of the Target under both approaches.

In the UK regulatory framework for utility companies, the Allowed Revenues are largely determined by the level of capital investment in the regulated asset base. Regulators such as Ofgem, for electricity and gas networks, and the Water Services Regulation Authority (“Ofwat”), for water services, set price controls based on the notional value of the capital employed in the business, and this value is commonly referred to as RAV or regulatory capital value (“RCV”). This value represents the invested capital on which the company is permitted to earn a return and, therefore, serves as the most representative and fundamental indicator of the scale, earning power and the long-term economic value of a regulated utility company in the UK. As such, we consider the EV to RAV or RCV (“EV/RAV” or “EV/RCV”) ratio to be particularly insightful metrics, as they express the market value of the enterprise relative to the asset base that underpins its regulated revenues.

To ensure a comprehensive analysis, we have also assessed the Comparable Transactions and Comparable Companies using the EV to EBITDA (“EV/EBITDA”) ratio. This metric is widely used in mergers and acquisitions and valuation analysis as it normalises differences in capital structure and provides a proxy for the operating cash-generating power of a business, thereby offering a complementary view of value relative to the regulatory asset-based approach.

In identifying the most appropriate reference set for the Target Group, we note that the Target Group operates principally as a UK electricity DNO. Our search identified two completed precedent transactions within the five years preceding the date of the Share Purchase Agreement involving targets operating principally as UK DNOs, further details of which are set out in the section headed “Recent precedent transactions” below. As these transactions involve targets with business profiles directly comparable to that of the Target and reflect actual prices agreed between independent buyers and sellers in arm’s length negotiations, we consider the Comparable Transactions analysis to be the primary basis of comparison for the purposes of our assessment.

With respect to the analysis of Comparable Companies, we note that there are no listed companies which are predominantly focused on electricity distribution in the UK. The listed UK utility companies and companies with substantial operations in the electricity sector identified through our screening process each have a broader business mix than the Target Group, including exposure to (i) non-regulated activities, (ii) activities not regulated the same way as the Target Group, i.e. operations under different regulatory regimes (such as Ofwat for water companies), and/or (iii) significant regulated operations outside the UK. As such, the valuation multiples derived from these listed peers are not directly comparable to those of the Target Group. Nevertheless, we have included a Comparable Companies analysis for completeness and as an additional reference for the Independent Board Committee and the Independent Shareholders. Further details of the Comparable Companies analysis are set out in the section headed “*Trading statistics of comparable listed companies*” below.

(i) *Recent precedent transactions*

Based on the criteria set out above, we sought to identify completed and publicly disclosed merger and acquisition transactions within the two years preceding the date of the Share Purchase Agreement in which the transaction target operated principally as a UK DNO. As this search only yielded one Comparable Transaction meeting the selection criteria, we have expanded the scope to cover five years preceding the date of the Share Purchase Agreement while keeping other selection criteria unchanged, in order to establish a broader reference pool for a meaningful analysis. Under this expanded scope, we have identified, on an exhaustive basis, two Comparable Transactions, each involving a target engaged primarily in electricity distribution in the UK as a DNO and contains publicly available financial data in relation to the relevant transaction.

For both the Comparable Transactions and the Disposal, these multiples were derived using the latest available financial information or trailing twelve months (“TTM”) figures sourced from the latest published annual and interim reports or annual results announcements of the target companies or their underlying DNOs, alongside data from S&P Capital IQ and transaction documents, as at the date of the announcement or press release for each transaction.

**Table 1 – Comparable Transactions**

Date of announcement/ press release	Acquirer	Underlying DNO group	Target company	Underlying DNO group	Stake of underlying DNOs acquired %	Size of consideration (GBP million)	EV <sup>(note 2)</sup> (GBP million)	EBITDA <sup>(note 3)</sup> (GBP million)	RAV <sup>(note 4)</sup> (GBP million)	EBITDA <sup>(note 6)</sup> (times)	EV/RAV <sup>(note 7)</sup> (times)
02 August 2024	Iberdrola, S.A. (BME: IBE)	North West Electricity Networks (Jersey) West Limited	North West Electricity Networks (Jersey) West Limited	Electricity North West Limited	88.0%	2,100	4,200	359	2,685	11.72x	1.56x
18 March 2021	National Grid PLC (LSE: NG)	PPL WPD Investments Limited	PPL WPD Investments Limited	Western Power Distribution PLC	100.0%	7,800	14,213	1,253	8,516	11.34x	1.67x
25 February 2026	The Purchaser	The Target	The Target	Target Group	20.0%	2,105 <sup>(note 1)</sup>	16,424 <sup>(note 1)</sup>	1,300	9,492 <sup>(note 2)</sup>	12.63x	1.73x
									Average	11.53x	1.62x
									Median	11.53x	1.62x
									Maximum	11.72x	1.67x
									Minimum	11.34x	1.56x

Source: S&P Capital IQ, published annual and interim reports and announcements of relevant transaction target, and annual and interim financial statements of their underlying DNOs.

## Notes:

1. The implied 20% equity value and 100% EV of the Target is calculated as follows:

	GBP million
Base CKA Consideration	2,109.6
% equity interest sold by CKA in the Disposal	20%
<hr/> Total base consideration for the Disposal	<hr/> 10,548.0
Add: Ticking fee <sup>(note 1.1)</sup>	316.4
Less: Known permitted leakage amount <sup>(note 1.2)</sup>	(340.0)
<hr/> Implied 100% equity value of the Target in the Disposal	<hr/> 10,524.5
Add: Net debt <sup>(note 1.3)</sup>	5,900.0
<hr/> Implied 100% EV of the Target in the Disposal	<hr/> 16,424.5
 Implied 100% equity value of the Target in the Disposal	 10,524.5
% equity interest sold by CKA Sub in the Disposal	20%
<hr/> CKA Consideration	<hr/> 2,104.9

- 1.1 The ticking fee is the interest incurred from (and excluding) the Locked Box Date up to (and including) the Closing Date (which is yet to be determined) at a rate of 4% per annum as per the Share Purchase Agreement on the base consideration. We have taken the period from (and excluding) the Locked Box Date up to (and including) the date on which the Target's financial data in this analysis is based (i.e. 31 December 2025) for the calculation of the amount of the ticking fee for illustrative purpose.
- 1.2 The known permitted leakage amount includes dividends and interests on the Shareholder Debt Instruments paid to the Sellers by the Target post-Locked Box Date.
- 1.3 This amount represents the net debt (being total external borrowings net of cash and cash equivalent) as at 31 December 2025, being the latest available financials, as disclosed in the section headed "3. Information of the Target Group" of the Letter from the Board.
2. The enterprise value of the target companies in the Comparable Transactions is based on public disclosures made by the respective acquirers or sellers in their transaction announcements and related documents.
3. The EBITDA of the target companies in the Comparable Transactions is based on the latest available or TTM figures, where applicable, calculated from their reported EBITDA published in the latest annual or interim reports of the respective company as of the date of the announcement or press release of the Comparable Transaction. Where unavailable, it is calculated as the profit before tax excluding depreciation and amortisation, interest income and interest expense, as published in those reports.
4. The RAV of Electricity North West Limited was quoted based on the disclosure in its annual report for the financial year ended 31 March 2024, whereas the RAV of Western Power Distribution PLC was quoted based on the disclosure in the annual report of PPL Corporation, the seller in this transaction, for the financial year ended 31 December 2020.
5. The RAV of the Target Group is based on its latest available RAV, which amounts to GBP9,492 million as at 30 September 2025, derived from the sum of the RAVs published by each of the Target's underlying DNOs in their interim financial statements for the six months ended 30 September 2025.
6. The EV/EBITDA ratio is calculated by way of dividing the enterprise value by the respective EBITDA.
7. The EV/RAV ratio is calculated by way of dividing the enterprise value by the respective RAV.

As can be seen from the tabulation above, the EV/RAV ratios of the Comparable Transactions range from approximately 1.56x to 1.67x with both the average and median being approximately 1.62x. In comparison, the implied EV/RAV ratio of the Disposal is approximately 1.73x, which is above the maximum EV/RAV ratio of 1.67x derived from the acquisition of PPL WPD Investments Limited by National Grid PLC in 2021 and is therefore considered favourable to the Company. Similarly, the EV/EBITDA ratios of the Comparable Transactions range from approximately 11.34x to 11.72x with both the average and median at approximately 11.53x while the implied EV/EBITDA of the Disposal is approximately 12.63x, exceeding the maximum multiple of approximately 11.72x derived from the acquisition of North West Electricity Networks (Jersey) Limited by Iberdrola, S.A. in 2024.

Having considered the implied EV/EBITDA multiple and the implied EV/RAV multiple of the Target exceeds the relevant ratios of the Comparable Transactions, we are of the view that the consideration for the Disposal is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) *Trading statistics of comparable listed companies*

As noted in the section above, we have conducted an analysis of the Comparable Companies as a supplementary reference for the Independent Board Committee and the Independent Shareholders, notwithstanding the limitations arising from the absence of directly comparable listed peers.

Given the absence of listed companies predominantly focused on UK electricity distribution, we adopted the following selection criteria to identify a set of Comparable Companies which, in our view, represent the most relevant available listed peers:

- (i) the company is listed on the London Stock Exchange;
- (ii) the company is under the utilities and renewable electricity industry classifications of S&P Capital IQ;
- (iii) the company is principally engaged in the utility and/or the electricity business, with business operations in the UK;
- (iv) the company has a TTM EBITDA of GBP500 million or above as of the date of the Share Purchase Agreement; and
- (v) the company is not an investment fund.

Based on the above criteria, we identified six Comparable Companies as detailed in Table 2 below.

Within this set, we consider National Grid plc and SSE plc to be relatively more comparable to the Target Group, given that they derive a portion of their earnings from UK regulated electricity network activities and are subject to the same regulatory framework, overseen by Ofgem, governing the Target.

However, we note that neither company is predominantly focused on electricity distribution in the UK. National Grid plc has a significant portion of regulated activities in the United States which are under a different regulatory regime, while SSE plc has material renewable generation operations alongside its thermal generation and retail business which are not regulated the same way as the Target Group.

The set also includes United Utilities Group PLC, Severn Trent PLC, Centrica plc and Drax Group plc. Although these companies operate under different regulatory regimes (such as water) or have greater exposure to non-regulated or international regulated activities, they share some characteristics with the Target, including:

- (i) all are UK-listed with substantial utilities and/or electricity businesses, and are therefore subject to broadly similar UK macroeconomic conditions, regulatory environment, capital market environment and investor expectations; and
- (ii) the water companies (United Utilities PLC and Severn Trent PLC) operate asset-backed, regulated return models with long-term revenue visibility, analogous to the Target's business model.

For the purposes of this analysis, we have adopted the full set of six Comparable Companies identified through our screening criteria to provide a broader reference range. We note that certain companies in our selected peer group, being Centrica plc and Drax Group plc, do not disclose a RAV or RCV as these metrics are not applicable to their respective businesses.

For both the Comparable Companies and the Target Group, these ratios are based on the latest available figures or TTM figures, where applicable, calculated using their published latest annual and interim reports, annual results announcements, and S&P Capital IQ, as at the date of the Share Purchase Agreement (25 February 2026), which are more reflective of the recent performance of the Comparable Companies and the Target.

Table 2 – Comparable Companies of the Target

Company name	Ticker	As at the date of the Share Purchase Agreement				
		EV <sup>(note 1)</sup> (GBP million)	EBITDA <sup>(note 3)</sup> (GBP million)	RAV or RCV <sup>(note 4)</sup> (GBP million)	EV/ EBITDA <sup>(note 7)</sup> (times)	EV/RAV or EV/RCV <sup>(note 8)</sup> (times)
<b>I. Companies with UK regulated electricity distribution and transmission operators</b>						
National Grid plc	LSE: NG.	109,944	7,425	60,150	14.81x	1.83x
SSE plc	LSE: SSE	44,310	2,506	14,225	17.68x	3.11x
<b>II. Companies with other UK regulated utility operations or substantial operations in the electricity sector</b>						
Centrica plc	LSE: CNA	7,821	867	NA <sup>(note 5)</sup>	9.02x	NA
United Utilities Group PLC	LSE: UU.	19,435	1,326	15,980	14.65x	1.22x
Severn Trent PLC	LSE: SVT	19,047	1,251	14,878	15.22x	1.28x
Drax Group plc	LSE: DRX	3,780	865	NA <sup>(note 5)</sup>	4.37x	NA
				Median	14.73x	1.55x
				Average	12.63x	1.86x
				Maximum	17.68x	3.11x
				Minimum	4.37x	1.22x
Target		16,424 <sup>(note 2)</sup>	1,300	9,492 <sup>(note 6)</sup>	12.63x	1.73x

Sources: S&P Capital IQ, published annual and interim reports and announcements of relevant Comparable Companies, and interim financial statements of their underlying DNOs

Notes:

- The enterprise value of the Comparable Companies is calculated as the respective market capitalisation, plus net debt, total preferred equity, and minority interest in the latest annual or interim reports of the respective company as of the date of the Share Purchase Agreement, with net debt adjustments. The net debt calculation has made reference to the latest published net debt, with adjustments made to include borrowings minus cash and cash equivalent, and on a best-efforts basis using publicly available information, any net debt movements between the year or period end date of the latest annual or interim reports adopted and the date of the Share Purchase Agreement.
- The implied enterprise value of the Target is calculated as follows:

	GBP million
Base CKA Consideration	2,109.6
% equity interest sold by CKA in the Disposal	20%
<hr/> Total base consideration for the Disposal	<hr/> 10,548.0
Add: Ticking fee <sup>(note 2.1)</sup>	316.4
Less: Known permitted leakage amount <sup>(note 2.2)</sup>	(340.0)
<hr/> Implied 100% equity value of the Target in the Disposal	<hr/> 10,524.5
Add: Net debt <sup>(note 2.3)</sup>	5,900.0
<hr/> Implied 100% EV of the Target in the Disposal	<hr/> 16,424.5

- 2.1 *The ticking fee is the interest incurred from (and excluding) the Locked Box Date up to (and including) the Closing Date (which is yet to be determined) at a rate of 4% per annum as per the Share Purchase Agreement on the base consideration. We have taken the period from (and excluding) the Locked Box Date up to (and including) the date on which the Target's financial data in this analysis is based (i.e. 31 December 2025) for the calculation of the amount of the ticking fee for illustrative purpose.*
- 2.2 *The known permitted leakage amount includes dividends and interests on the Shareholder Debt Instruments paid to the Sellers by the Target post-Locked Box Date.*
- 2.3 *This amount represents the net debt (being the total external borrowings net of cash and cash equivalent) as of 31 December 2025, being the latest available financials, as disclosed in the section headed "3. Information of the Target Group" of the Letter from the Board.*
3. *The EBITDA of the Comparable Companies is based on the latest available or TTM figures, where applicable, calculated from reported EBITDA published in the latest annual or interim reports of the respective company as of the date of the Share Purchase Agreement. Where unavailable, it is calculated as the profit before tax excluding depreciation and amortisation, interest income and interest expense, as published in those reports.*
4. *The RAV or RCV is based on that disclosed in the latest published annual reports of the Comparable Companies or interim financial statements of the DNO(s) of the Comparable Companies as of the date of the Share Purchase Agreement.*
5. *Centrica plc and Drax Group plc did not disclose any RAV or RCV.*
6. *The RAV of the Target Group is based on its latest available RAV, which amounts to GBP9,492 million as at 30 September 2025, derived from the sum of the RAVs published by each of the Target's underlying DNOs in their interim financial statements for the six months ended 30 September 2025.*
7. *The EV/EBITDA ratio is calculated by way of dividing the enterprise value by the respective EBITDA.*
8. *The EV/RAV or EV/RCV ratio is calculated by way of dividing the enterprise value by the respective RAV or RCV.*

On an EV/EBITDA basis, the implied multiple of the Target of approximately 12.63x falls within the range of approximately 4.37x to approximately 17.68x observed across the Comparable Companies and, while below the median of approximately 14.73x, is in line with the average of approximately 12.63x.

On an EV/RAV or EV/RCV basis, the implied multiple of the Target of approximately 1.73x also falls within the range of approximately 1.22x to approximately 3.11x of the Comparable Companies, and also falls within their median of approximately 1.55x and average of approximately 1.86x. We note that the Target's implied multiple is close to that of National Grid plc, which, among the Comparable Companies, has the most similar regulatory profile to the Target, given that a substantial portion of its UK operations are also subject to the RIIO price control framework administered by Ofgem, albeit with significant regulated operations in the United States under a different regulatory regime. The highest EV/RAV multiple of approximately 3.11x was exhibited by SSE plc, which could be attributable primarily to its significant activities that are not regulated the same way as the Target Group, the value of which is reflected in its enterprise value but not captured in its RAV.

Notwithstanding the limitations of the analysis of the Comparable Companies as described above, we note that the valuation multiples of the Disposal fall within the range of multiples observed across the Comparable Companies, which is consistent with the conclusions drawn from our analysis of the Comparable Transactions.

**(b) Financial effects of the Disposal on the Group**

After completion of the Disposal, CKA Sub will cease to have any interest in the Target Group. Subject to Closing and based on the information currently available, the Group expects to report a gain of approximately HK\$8.4 billion arising from CKA Sub's Disposal. The estimated gain on CKA Sub's Disposal is based on the currently available information, including estimates and assumptions regarding: (i) the value of the consideration as determined by the terms of the CKA Sub's Disposal; (ii) the carrying amount of the Group's interests in the Target Group and the related CKA Sub's Shareholder Debt Instruments to be derecognised; (iii) the amount to be reclassified from reserves to profit or loss (primarily foreign exchange gains and losses previously recognised in other comprehensive income and accumulated in reserves); (iv) the transaction costs; and (v) the exchange rate as set out in the section headed "Definitions" in this circular. As the actual amounts of the items described above may differ from those used in the current calculation at the time of Closing, the final gain recognised may vary from the amount presented herein. Net cash proceeds from the CKA Sub's Disposal may be deployed in future investments which is in line with the Company's corporate strategy to stand ready for quality diversified investment opportunities to enhance shareholder value.

We consider the disposal gain of approximately HK\$8.4 billion in relation to CKA Sub's Disposal is beneficial to the financial performance of the Company. Furthermore, the net proceeds from CKA Sub's Disposal, which is fully settled by cash, will also provide more resources for the Company to proceed with its strategic development. We consider the financial effects of CKA Sub's Disposal is in the interest of the Company and the Shareholders as a whole.

**(c) Prospects and outlook of the Group upon the Disposal**

In assessing the Disposal, we have also considered the outlook for the Target Group and the broader UK electricity distribution sector:

*(i) Regulatory Framework Update*

The revenues and returns of the Target Group's electricity distribution business are governed by Ofgem's price control framework. Under this framework, the total expenditure allowance ("totex") and the allowed weighted average cost of capital ("allowed WACC") are the primary determinants of the business's RAV growth trajectory, earnings capacity and, consequently, its valuation. The Target Group currently operates under the RIIO-ED2 price control, effective from 1 April 2023 to 31 March 2028.

The next RIIO price control period for electricity distribution networks in the UK (“RIIO-ED3”)<sup>4</sup>, will run from 1 April 2028 to 31 March 2033 in accordance with Ofgem’s ED3 Framework Decision published in April 2025. Ofgem published its Sector Specific Methodology Consultation for ED3 in October 2025 and is expected to issue its Methodology Decision in summer 2026, with DNOs, which include the three licence areas operated by the Target Group, business plans to be submitted at the end of 2026. As at the date of this letter, the key financial parameters for RIIO-ED3, including totex allowances and allowed WACC, have not been finalised.

More broadly, the regulatory landscape for electricity distribution in the UK is undergoing a structural transition that extends beyond a single price control cycle. The UK government has established the National Energy System Operator (“NESO”), an independent, publicly-owned body created under the Energy Act 2023 as the centralised strategic planner for the national energy system. Under the new framework, network investment planning will progressively shift from a model in which individual DNO such as the Target Group determine their own investment programmes, to one in which investment needs are identified through Regional Energy Strategic Plans (“RESPs”) developed by NESO within a 25-year strategic horizon. The Target Group, as the operator of three DNO licence areas covering East of England, London and South East England, will be directly subject to this new planning framework. The first full suite of RESPs is not expected to be published until late 2027, and the extent to which this new planning regime will be reflected in the RIIO-ED3 settlement and in subsequent price control periods remains uncertain. This transition introduces a long-term uncertainty as to how the Target Group’s future investment programmes, and consequently its RAV growth and earnings capacity, will be determined.

(ii) *Substantial Capital Expenditure Requirements*

The UK’s decarbonisation objectives are expected to require substantial capital investment in distribution networks. According to the Climate Change Committee’s Seventh Carbon Budget published in February 2025, the UK will consume approximately twice as much electricity as today by 2040. According to the Department for Business, Energy and Industrial Strategy in the UK, cumulative network costs are estimated at GBP270 to GBP350 billion by 2050, of which GBP40 to GBP110 billion is attributed to net zero investment specifically.

As a UK electricity DNO serving approximately 8.5 million homes and businesses covering 19 million people, or approximately 28% of the UK’s population, the Target Group may bear a significant share of this investment burden. Key demand drivers include network reinforcement and upgrades to accommodate the

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4 ED3 means Electricity Distribution period 3.

accelerating rollout of electric vehicles, heat pumps and distributed renewable generation, as well as investment to ensure climate resilience. The Target Group has incurred gross capital expenditure of approximately GBP1.1 billion and approximately GBP1.3 billion in the financial years ended 31 March 2024 and 2025, respectively, representing the first two years of the RIIO-ED2 price control period. With three years of RIIO-ED2 remaining and further investment expected under RIIO-ED3 and beyond, the Target Group may likely face a sustained period of elevated capital deployment.

While such investment may support future RAV growth, it also entails execution risk, including the risk that actual costs exceed regulatory allowances or that returns on incremental capital are lower than on legacy assets.

*(iii) Volatile Input Costs*

While the Target Group's Allowed Revenues are indexed to CPIH inflation, its operational and capital costs may not move in line with general inflation. According to the Office for National Statistics in the UK, CPIH inflation stood at around 3.4% in the 12 months ending March 2025, whereas construction sector wages grew by approximately 6.5% over the corresponding period. The Target Group acknowledged in its annual report for the financial year ended 31 March 2025 that it "could be impacted by conditions in the external market, including global trade, supply chain lead times and the availability of skilled workers or contractors". These cost pressures may persist, as the UK's broader decarbonisation programme, government housing, and infrastructure targets are expected to generate significant competing demand for the same pool of skilled electrical and construction workers. According to the Construction Industry Training Board in the UK, the UK construction sector will require approximately 250,000 additional workers by 2028 to meet projected demand, and electricians remain in high demand nationwide. There can be no assurance that regulatory mechanisms will fully compensate for actual cost pressures experienced by the Target Group during the remaining period of RIIO-ED2 and beyond.

While the Target Group benefits from its position as a provider of essential services within an established regulatory framework, it nonetheless faces uncertainty surrounding future regulatory determinations under RIIO-ED3, substantial capital expenditure requirements over the remaining period of RIIO-ED2 and beyond, and the possibility that input costs may not move in line with regulatory allowances. These factors may have an impact on the future earnings and cashflows of the Target Group.

**VI. RECOMMENDATIONS**

Taking into account the considerations and factors set out above, we are of the opinion that the terms of CKA Sub's Disposal are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole. For the Company, the Disposal is conducted at a fair value which realises significant accounting gain and cash proceeds which may be deployed in future investments and in line with its corporate strategy to stand ready for quality diversified investment opportunities to enhance shareholder value. Although CKA Sub's Disposal constitutes a connected transaction for the Company under the Listing Rules, the transaction is, in substance, between the Sellers as a whole on the one hand and the Purchaser on the other, which is an independent third party with no connection to the Sellers as a whole. Unlike most connected transactions, there are no material conflicts of interests between the Company as a seller and the Purchaser, as the terms have been negotiated on an arm's length basis, in which we believe is an important consideration. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of, and we also advise the Independent Shareholders to vote in favour of, the ordinary resolutions to be proposed at the EGM of the Company to approve CKA Sub's Disposal and the transactions contemplated thereunder.

**Your faithfully,**  
**For and on behalf of**  
**Anglo Chinese Corporate Finance, Limited**



**Stephen Clark**  
*Managing Director*



**Karl Chan**  
*Director*

1. Mr. Stephen Clark is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. He has over 35 years of experience in corporate finance.
2. Mr. Karl Chan is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and as a licensed representative of Anglo Chinese Corporate Finance, Limited to carry out Type 9 (asset management) regulated activity under the SFO. He has over 10 years of experience in corporate finance.