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

"Acquisition"	the acquisition of 47.5% equity interest in the Target Company for an aggregate consideration of RMB190,000,000 (approximately HK$211,111,111) as contemplated under the Sale and Purchase Agreement;
"Announcement"	the announcement of the Company dated 11 September 2020 in relation to, among other things, the Sale and Purchase Agreement and the Acquisition;
"Assignment of Rights"	the assignment to be entered into between the Purchaser, the Vendor, the Target Company, Linre New Energy, Jinan Linhua Partnership and the Steam Co to assign certain rights enjoyed by the Vendor under the Previous Share Transfer Agreement and the steam supply agreement (as amended and supplemented from time to time) to the Purchaser upon Completion;
"associate(s)"	has the meaning ascribed thereto in the Listing Rules;
"Board"	the board of directors of the Company;
"Company"	China Shuifa Singyes Energy Holdings Limited (中國水發興業能源集團有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 0750);
"Completion"	completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement;
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules;
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules;
"Director(s)"	the director(s) of the Company;
"Finance Lease"	the finance lease agreement dated 11 August 2020 entered into between China Resources Finance Lease Co., Ltd.* (華潤融資租賃有限公司) as the lessor and the Target Company as the lessee pursuant to which the Target Company sold and leased back all steam pipelines owned by the Target Company for a term of five years at aggregate lease payment of approximately RMB22.78 million per annum, with option to purchase at the end of the term for RMB100;

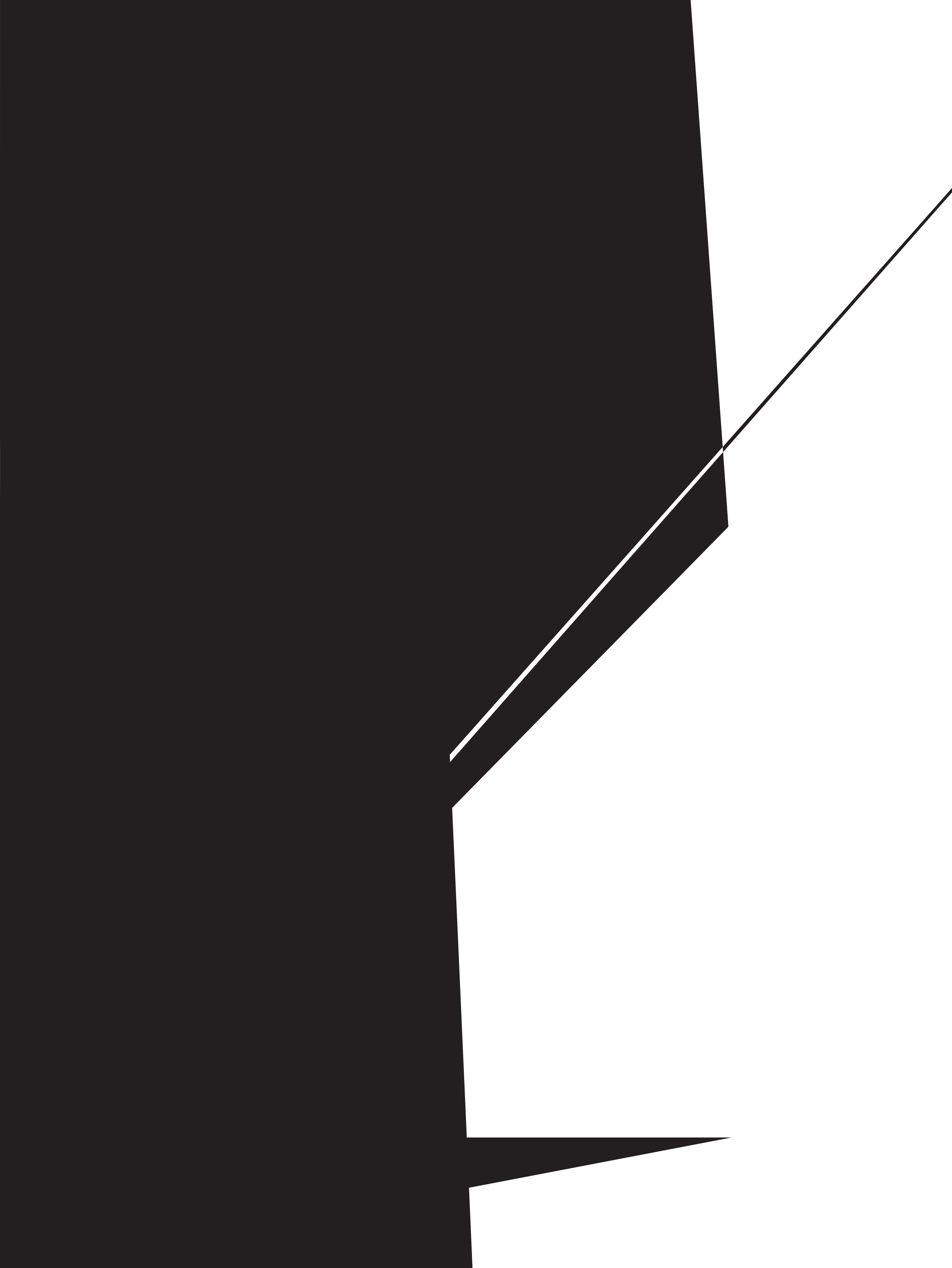
"Group"	at any time, the Company and each of its subsidiaries from time to time, and "Group Company" means any one of them accordingly;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	an independent committee of the Board comprising all of the independent non-executive Directors, established for the purpose of advising the Independent Shareholders, on the terms of the Sale and Purchase Agreement, the Acquisition and the transactions contemplated thereunder;
"Independent Shareholders"	Shareholders other than Shuifa Energy and its associates who have a material interest in the transactions contemplated under the Sale and Purchase Agreement;
"Jinan Linhua Partnership"	Jinan Linhua Investment Partnership (Limited Partnership) (濟南臨化投資合夥企業(有限合夥)), the 3.5% shareholder of the Target Company as at the date of the Sale and Purchase Agreement;
"Latest Practicable Date"	11 September 2020, the latest practicable date prior to the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular;
"Linre New Energy"	Zibo Linre New Energy Co., Ltd.* (淄博臨熱新能源有限公司), the 39% shareholder of the Target Company as at the date of the Sale and Purchase Agreement;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	the date falling on the 45th day after the date of the Sale and Purchase Agreement, or such later date as may be agreed by the Purchaser and the Vendor in writing;
"Luyin Suhua"	Zibo Luyin Suhua Co., Ltd.* (淄博魯銀塑化有限公司), the 10% shareholder of the Target Company as at the date of the Sale and Purchase Agreement;
"PRC"	the People's Republic of China, and for the purpose of this circular only excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

"Previous Share Transfer Agreement"	the sale and purchase agreement, as may be amended and supplemented from time to time, pursuant to which the Vendor acquired the 47.5% equity interest in the Target Company in January 2020 and was entered into in January 2020 between Linre New Energy as the vendor, the Vendor and Jinan Linhua

"Shareholder(s)"	holder(s) of the Share(s);
"Shuifa Energy"	Shuifa Energy Group Limited* (水發能源集團有限公司), a wholly owned subsidiary of Shuifa Group whose ultimate controlling shareholder is the State-owned Assets Supervision and Administration Commission of the State Council of the Shandong Province of the PRC* (山東省國有資產監督管理委員會);
"Shuifa Group"	Shuifa Group Co., Ltd.* (水發集團有限公司);
"Steam Co"	Zibo City Linzi Thermal Power Plant Co., Ltd.* (淄博市臨淄熱電廠有限公司), the sole steam supplier of the Target Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Target Company"	Zibo Qilu Chemical Industry Zone Thermal Co., Ltd.* (淄博齊魯化學工業區熱力有限公司), a company owned as to 47.5% by Shuifa Clean Energy, 39% by Linre New Energy, 10% by Luyin Suhua and 3.5% by Jinan Linhua Partnership;
"Valuation Report"	the valuation report prepared by the Valuer dated 11 September 2020 in relation to valuation of the Target Company;
"Valuer"	Roma Appraisals Limited, the independent valuer appointed by the Company in relation to the Acquisition;
"Vendor"	Shandong Shuifa Clean Energy Technology Co., Ltd.* (山東水發清潔能源科技有限公司), a wholly owned subsidiary of Shuifa Energy;
"%"	per cent.

In this circular, if there is any inconsistency between the Chinese names of entities or enterprises established in the PRC or Chinese government authorities or departments and their English translations, the Chinese names shall prevail.

Unless otherwise specified in this circular, translations of RMB into HK$ are made in this circular, for illustration only, at the rate of HK$1.0 = RMB0.9. No representation is made that any amounts in RMB or HK$ could have been or could be converted at that rate or at any other rate.



The purpose of this circular is to provide you with, among other things, (i) the material terms of and further information in relation to the Acquisition; (ii) the recommendation and advice of the Independent Board Committee; and (iii) a letter of advice from Red Sun

Consideration

The consideration payable by the Purchaser to the Vendor for the Acquisition is RMB190,000,000 (approximately HK$211,111,111), which shall be payable by the Purchaser to the Vendor in cash in three instalments as follows:

Instalment	Amount *(RMB)*	Due date
1	60,000,000	Within seven PRC business days after the Purchaser is satisfied that it has been registered as the 47.5% shareholder of the Target Company with the local Administration for Industry and Commerce.
2	60,000,000	On the later of 30 October 2020 or two months following Completion, or any other date as may be agreed by the Purchaser and the Vendor
3	70,000,000	On the later of 31 December 2020 or three months following Completion, or any other date as may be agreed by the Purchaser and the Vendor

The consideration for the Acquisition was determined after arm's length negotiation between the Purchaser and the Vendor by reference to, among other things, the historical financial performance of the Target Company, the supply and existing and perceived demand for steam in Qilu Chemical Industrial Park in Zibo City, Shangdong Province in which the Target Company operates, the Target Company's steam distribution contracts at hand as at the Latest Practicable Date and the terms of the long term steam supply agreement with Steam Co and the price for steam supply. In addition, the Purchaser also took into account the valuation of the 47.5% equity interest in the Target Company at approximately RMB199,000,000 as at 31 March 2020 by the Valuer in the Valuation Report, which is reproduced in Appendix I to this circular.

Given that the Valuer has adopted the income approach (which involves the discounted cash flow method) when assessing the value of the Target Company, the valuation in the Valuation Report is regarded as a profit forecast under Rule 14.61 of the Listing Rules. As required by Rules 14.62(1) and 14.62(2) of the Listing Rules, the principal assumptions upon which the Valuation Report was prepared and a letter from Ernst & Young, the reporting accountant of the Company for this purpose (the "**Letter from the Reporting Accountants**") are set out in Appendix I and Part A of Appendix II to this circular. We hereby confirm that, in accordance with the Listing Rules, we have reviewed the assumptions based upon which the Valuation Report was prepared and the Letter from the Reporting Accountants and we confirm that the profit forecast comprised in the Valuation Report has been made after due and careful enquiry. A confirmation letter from the Board is set out in Part B of Appendix II.

Conditions Precedent

Conditions precedent of the Vendor ("Vendor CPs")

The Vendor's obligations under the Sale and Purchase Agreement are conditional upon the satisfaction (or waiver, as the case may be) of the following conditions precedent:

(a) the representations and warranties of the Purchaser under the Sale and Purchase Agreement remaining true, complete and not misleading;

(b) the Purchaser having signed and delivered to the Target Company and the Vendor the SHA and the Assignment of Rights; and

(c) the independent shareholders of the Company having approved the transactions contemplated under the Sale and Purchase Agreement;

Conditions precedent of the Purchaser ("Purchaser CPs")

The Purchaser's obligations under the Sale and Purchase Agreement are conditional upon the satisfaction (or waiver, as the case may be) of the following conditions precedent:

(a) the representations and warranties of the Vendor under the Sale and Purchase Agreement remaining true, complete and not misleading;

(b) the lessor under the Finance Lease having agreed to and released the charge over the 47.5% equity interest in the Target Company held by the Vendor to facilitate Completion, on terms acceptable to the Purchaser;

(c) the Vendor having delivered to the Purchaser the SHA and the Assignment of Rights duly executed by parties thereto (except the Purchaser);

(d) the Vendor having performed its obligations that are required under the Sale and Purchase Agreement before Completion;

(e) no governmental body having made, published, issued, implemented or passed any law or governmental order that may render the Acquisition and/or any transactions contemplated under the Sale and Purchase Agreement illegal or otherwise restrict or prohibit such transaction;

(f) the shareholders of the Target Company (other than the Vendor) having approved the Acquisition and waived their pre-emption rights in relation to the transfer of the 47.5% equity interest in the Target Company by the Vendor;

(g) there being no claim or dispute (whether actual or can reasonably be foreseen to arise) against the Target Company which may prohibit or otherwise restrict the Acquisition and/or any transactions contemplated under the Sale and Purchase

(h) the Purchaser having completed and being satisfied with the results of its due diligence against the Target Company;

(i) there being no change to the business operations, assets, financial and other conditions of the Target Company that can reasonably be expected, singly or collectively, to result in a material adverse change to the Target Company;

(j) the delivery of a compliance confirmation by the Vendor's legal representative to the Purchaser with respect to the satisfaction of all Purchaser CPs set out above.

The Vendor may waive any of the Vendor CPs, except Vendor CP (c). The Purchaser may waive any of the Purchaser CPs, except Purchaser CPs (b), (e), (f) and (g). If any of the Vendor CPs or the Purchaser CPs has not been satisfied (or waived) on or before the Long Stop Date, either the Vendor or the Purchaser may terminate the Sale and Purchase Agreement and none of the parties will have any obligation towards the other parties as a result of the termination.

As at the date of the Sale and Purchase Agreement, the Finance Lease is secured by 90% equity interest in the Target Company, including the 47.5% equity interest that is the subject of the Acquisition but excluding the 10% equity interest held by (the Company was told) a passive investor of the Target Company which had no representation on the board of the Target Company. The payment obligations of the Target Company under the Finance Lease are also guaranteed by Shuifa Group for which no guarantee fee is payable and no security is given by the Target Company. The lessor of the Finance Lease has agreed to facilitate Completion by temporary release of the charge over 47.5% equity interest currently held by the Vendor on the basis that the Purchaser will re-charge the same equity interest post Completion. Therefore, the Purchaser has agreed, subject to Completion and the registration of the 47.5% equity interest in the Target Company in its name, to charge such equity interest in favour of the lessor under the Finance Lease to secure payment obligations of the Target Company under the Finance Lease.

To the best of information, knowledge and belief of the Directors having made all reasonable enquiries, the lessor of the Finance Lease is not a connected person of the Company.

Assignment of Rights, Profit Undertaking and Put Option

Under the Previous Share Transfer Agreement, the Vendor enjoyed the benefit of the Profit Undertaking provided by Linre New Energy. Such benefit will be assigned to the Purchaser under the Assignment of Rights as follows:

(a) If the audited net profit (after extraordinary items) of the Target Company for any given financial year during the period from 1 January 2020 to 31 December 2044 is less than RMB63 million, Linre New Energy agreed to compensate the shortfall multiplied by the shareholding percentage held by the Purchaser in the Target Company in cash, which can be satisfied by Linre New Energy directing that the amount of its dividends entitlement from the Target Company be paid instead to the Purchaser.

(b) If the audited net profit (after extraordinary items) of the Target Company is less than RMB63 million for any three consecutive years during the period mentioned in paragraph (a) above, other than due to force majeure events (such as major natural disasters, social unrest, terrorist activities and wars) (the "**Three-Year Shortfall**"), the Purchaser has the right to require Linre New Energy to double the compensation to the Purchaser set out in paragraph (a) above for any further breach of the Profit Undertaking until the Target Company meets the Profit Undertaking again.

Linre New Energy's payment obligation under the Profit Undertaking is to be secured by a charge over its 39% equity interest in the Target Company in favour of the Purchaser and a guarantee by the Steam Co which will be assigned to the Purchaser under the Assignment of Rights.

In addition, under the Previous Share Transfer Agreement, the Vendor had the right to require Linre New Energy to purchase the 47.5% equity interest in the Target Company under certain circumstances at its original acquisition price plus penalty/interest (which will not be transferred to the Purchaser under the Assignment of Rights, since the Vendor's acquisition price is lower than that payable under the Sale and Purchase Agreement). Under the Sale and Purchase Agreement, the Purchaser is given the right to require the Vendor to purchase the 47.5% interest in the Target Company under the same circumstances at the purchase price of RMB190,000,000 payable under the Sale and Purchase Agreement plus interest accrued thereon at the one-year Loan Prime Rate published by the People's Bank of China from the date of receipt of the consideration by the Vendor to the date of completion of such purchase, upon the occurrence of the following events:

(i) if a Three-Year Shortfall arises and the Purchaser elects not to require Linre New Energy to pay double compensation for any further breach of the Profit Undertaking; or

(ii) if the business of the Target Company is unable to operate in the usual way for over three months due to any issue relating to the Target Company's right to operate exclusively in its operating area, the breach of any term of the Previous Share Transfer Agreement by Linre New Energy and/or the breach of the steam supply contract by the Steam Co.

Completion

Completion is to take place on the date of registration with the local Administration for Industry and Commerce of the Purchaser as shareholder of the Target Company in respect of 47.5% equity interest. Such registration is required to completed within 15 PRC business days after parties to the Sale and Purchase Agreement have confirmed that all conditions precedent under the Sale and Purchase Agreement are satisfied (to the extent not waived). Subject to the fulfilment (to the extent not waived) of such conditions precedent, Completion shall take place on or before the date falling on the 60th day after the date of the Sale and Purchase Agreement.

SHA

One of the conditions precedent in the Sale and Purchase Agreement requires the Target Company, the Purchaser and the other shareholders of the Target Company at Completion to enter into the SHA to regulate the management of the Target Company. The SHA will take effect upon Completion. Under the SHA,

(a) the Purchaser (in replacement of the Vendor) is to be entitled to nominate three of the five directors of the Target Company including the chairman of the board and Linre New Energy is entitled to nominate one director. The remaining director is to be a representative of the employees of the Target Company elected by the employees;

(b) Jinan Linhua Partnership, a 3.5% shareholder of the Target Company (see the section headed "Information on the Target Company" below), will entrust irrevocably the Purchaser at its sole discretion from time to time to exercise on behalf of Jinan Linhua Partnership the 3.5% voting rights attached to the equity interest held by Jinan Linhua Partnership in the Target Company. As such, upon Completion, the Purchaser will control 51% voting rights in the Target Company; and

(c) the Purchaser is also to be entitled to nominate the financial manager of the Target Company.

FINANCIAL EFFECTS OF THE ACQUISITION

Immediately after Completion, the Target Company will be controlled by the Purchaser as to 51% of its voting rights and will become a non wholly-owned subsidiary of the Company. Accordingly, the financial results of the Target Company will be consolidated into the Company's consolidated financial statements upon Completion.

INFORMATION ON THE VENDOR

The Vendor is an investment holding company incorporated in the PRC with a primary focus on the energy business segments. It is wholly-owned by Shuifa Energy. Shuifa Energy is a company established in the PRC and a wholly-owned subsidiary of Shuifa Group. Shuifa Group is owned, directly and indirectly, as to 90% by the State-owned Assets Supervision and Administration Commission of the State Council of the Shandong Province of the PRC* (山東省國有資產監督管理委員會) and as to 10% by the Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會), which is directly under the Shandong Provincial Government. Shuifa Group is principally engaged in the operation of water projects and environment management, modern agriculture, cultural tourism and renewable energy business segments in the PRC.

INFORMATION ON THE TARGET COMPANY

The Target Company was established in Zibo City, Shandong Province, PRC in April 2017 and is principally engaged in the distribution of industrial-use pipeline steam for heating purposes to companies located inside the Qilu Chemical Industrial Park (the "**Park**") in Zibo City, Shandong Province. As at the Latest Practicable Date, the Target Company's pipeline network covers an area of approximately 17 km^2 and serves 71 companies inside the Park.

The Park is the third national-grade professional chemical industrial park in China set up by the Provincial Government of Shandong Province and Sinopec Group and has been in use since 2003. It has a planned area of approximately 62 km^2, about half of which has been developed and houses more than 300 companies, about 50% of these companies are engaged in the chemical industry. Chemical manufacturers are major users of steam for primarily heating and heat preservation purposes. In May 2019, the Park was ranked the 5th by the China Petroleum and Chemical Industry Association (中國石油和化學工業聯合會) in the 2019 Top 30 Chemical Industrial Parks in China in terms of its overall strength, and the 4th and 5th in terms of its aggregate output value and net profit, respectively.

In the first half of 2019, a big data industrial complex located inside the Park commenced the construction of its phase II expansion which has a total investment of RMB2.8 billion and is targeted for completion in 2021. Upon completion, this big data complex is expected to become the largest centre in China to provide cloud service for intelligent video and aims to attract more than 100 companies, including Huawei, which are engaged in data storage, cloud computing, artificial intelligence and the manufacture of intelligent terminal products etc. The phase II of the big data industrial complex is expected to require steam for its cooling systems. In April 2020, Zibo City Municipal Government announced the plan for the Park to take over the adjacent Zhangdian East Chemical Park in late May 2020. Zhangdian East Chemical Park was established in 2012 with a planned area of 21 km^2 and focusing on fine chemicals and new materials industries. Some of its occupiers are producing steam to meet their own needs and currently there is no professional steam supplier in that park.

Since the opening of the Park in 2003, other than a few companies which are producing steam for self use, the Steam Co was the centralised heat supplier and sole producer and distributor of steam for the occupants of the Park (including industrial and commercial users) as well as certain domestic users in Zibo City. The Steam Co reached full production capacity in late 2019. It is constructing a new boiler with designed production capacity of a further 2 million tonnes of steam per year. The additional capacity is planned to commence commercial production by end of 2020. The Company has noted the continuous efforts by the PRC in its green energy transition and the recent measures by the Shandong Provincial Government to curtail small scale coal burning facilities which in turn would have an impact on the ability of industrial users in the Park to produce steam for self-consumption.

Based on information provided by the Vendor, the Target Company was established for the purposes of becoming a steam distributor through the acquisition of the steam distribution pipelines of the Steam Co. To this end, in late October 2019, the Target Company acquired from the Steam Co all of its steam pipelines for distribution of steam to industrial customers of Steam Co for RMB110 million. As a result, the customers served by these pipelines became customers of the Target Company. Such business accounted for more than 90% of the business of the Steam Co in terms of the volume of steam sold. Following the Target Company's acquisition, Steam Co is left with only one steam pipeline which is used to supply heat to a state-owned centralised steam distributor for residential-users in Zibo City. In addition, the Steam Co continues to serve certain commercial users inside the Park through the pipelines sold to the Target Company, while the Target Company has since then become the sole distributor of industrial-use steam in the Park.

The Target Company is likely to remain a sole distributor of industrial-use steam in the Park as the management committee of the Park announced in April 2020 that no construction of new steam pipelines in the operating area of the Target Company will be approved. In connection with its acquisition of the steam distribution business, the Target Company also secured from the Steam Co commitment to supply steam to the Target Company under a 20-year steam supply contract that expires in October 2039 (extendable for another five years by agreement of the Target Company and the Steam Co). Under the steam supply contract, the Steam Co is obliged to supply not less than 2 million tonnes of steam to the Target Company each year at a price per tonne that allows the Target Company RMB51 gross profit for each tonne of steam distributed to end users. If the daily usage of the Target Company is less than 40% of the designed production capacity of the Steam Co (except in the case of emergency), the Target Company is required to compensate the Steam Co for any loss that the Steam Co may suffer from operating at such low level of utilisation. The Target Company charges the Steam Co a fee of RMB51 per tonne for the Steam Co's supply of steam to its commercial steam users inside the Park through the Target Company's pipelines. In addition, the Target Company is also expected to supply coal to the Steam Co from time to time in the future on normal commercial terms to produce steam.

The Target Company is owned as to 47.5% by the Vendor, as to 39% by Linre New Energy, as to 10% by Luyin Suhua and 3.5% by Jinan Linhua Partnership. As at the Latest Practicable Date, Linre New Energy was ultimately owned by Li Desheng, Li Wenchao and Zhu Xiaochen, Luyin Suhua was owned by Wang Chen, and Jinan Linhua Partnership is a limited partnership held by 20 persons who are directors or employees of Shuifa Energy or its subsidiaries. As at the Latest Practicable Date, each of Mr. Zheng Qingtao, the Chairman and executive Director, and Mr. Wang Dongwei, an executive Director, holds 14.57% and 7.28% interest, respectively, both as limited partners of Jinan Linhua Partnership. As at the Latest Practicable Date, the Steam Co was owned by Zhu Lihua and Zhao Zhiliang. Save as disclosed above, to the best of information, knowledge and belief of the Directors having made all reasonable enquiries, none of the other shareholders of the Target Company or their ultimate beneficial owners or the Steam Co or its ultimate beneficial owners, as at the Latest Practicable Date, is a connected person of the Company.

The 47.5% equity interest in the Target Company subject to the Acquisition was acquired by the Vendor from Linre New Energy (i.e. the then controlling shareholder of the Target Company) in January 2020 at a consideration of approximately RMB93.1 million. The Company was informed by the Vendor that this was the result of extended discussions and negotiations between the Vendor, Linre New Energy and Steam Co that were initiated in the second half of 2018 (well before the Shuifa Group started its discussions regarding its subscription of shares in the Company in 2019). The Company was also informed by the Vendor that the consideration was determined by reference to, among other things, the result of valuation of the entire equity interest in the Target Company of approximately RMB286.9 million and the audited net asset value of the Target Company of approximately RMB109.1 million, both as at 31 October 2019. The Company understands that the bases and methodology of the valuation of the Target Company as at 31 October 2019 and as at 31 March 2020 are consistent with each other, and the variable that mainly contributed to the valuation difference was the volume of steam supply contracts held as at the valuation dates and that the previous valuation had assumed no growth in steam supply contract. As at 31 October 2019, the Target Company acquired 60 industrial customers from the Steam Co with an aggregate contracted steam sales volume of approximately 1.2 million tonnes per year.

As at 31 March 2020, the number of industrial customers contracted with Target Company increased to 68 and the steam sales volume contracted for was approximately 1.5 million tonnes per year. As at the date of the Sale and Purchase Agreement, the number of industrial customers increased to 71 and the total steam sales volume contracted for increased to approximately 1.8 million tonnes per year.

In addition, in February and July 2020, the Target Company entered into a letter of intent with an existing customer and a memorandum of understanding with the company that is developing the phase II big data centre as referred to above for the supply of additional steam as the customers complete their respective production facility upgrade and expansion projects and commence operation in phases. It is expected that such steam supply will start next year and the indicative additional demand upon the facility upgrade and the expansion projects becoming operational in full can reach an aggregate of approximately 1.8 million to 2.5 million tonnes of steam per year. The Target Company also intends to expand its pipeline network to connect additional customers to its existing network.

Based on the consolidated financial statements of the Target Company prepared in accordance with the PRC Generally Accepted Accounting Principles ("**PRC GAAP**"), the profit or loss of the Target Company before and after taxation is as follows:

	For the six months ended 30 June 2020	**For the financial year ended**	
		31 December 2019	**31 December 2018**
	unaudited	*audited*	*audited*
	(RMB)	*(RMB)*	*(RMB)*
Profit/(loss) before tax	29,443,064.51	6,640,780.64	(678,131.36)
Profit/(loss) after tax	22,076,347.77	5,129,344.24	(678,131.36)

Note: The losses for the year ended 31 December 2018 were mainly attributable to expenses of staff hired incurred in anticipation of the acquisition of the pipeline network engaging in steam distribution operations.

As at 30 June 2020, the unaudited consolidated net assets value of the Target Company under PRC GAAP was RMB147,861,284.9.

INFORMATION ON THE PURCHASER AND THE REASONS FOR AND BENEFITS OF THE ACQUISITION

The Purchaser is company incorporated in the PRC engaged in the research and development of electricity and new energy. It is wholly-owned by the Company, the investment holding company that holds the other members of the Group.

The Group is a professional renewable energy solution provider and building contractor. Its main businesses are design, fabrication and installation of curtain wall, green building and solar projects (including Building Integrated Photovoltaic (BIPV) system, roof top solar system and ground mounter solar systems, collection Solar EPC). It also engages in the production and sale of renewable energy goods, including smart grid system and solar thermal products such as air-source heat pump, solar heat collectors and solar heating system. Since the year ended 31 December 2014, the Group has also self-developed solar projects some of which the Group has sold in prior years to enhance its cashflow position and allow the Group to reallocate its resources for future development.

Following completion of the whitewash transaction by which Shuifa Energy became a majority shareholder of the Company in late November 2019 and completion of the debt restructuring scheme in December 2019, the Company has been exploring ways by which the Group can expand its clean energy business and strengthen its financial performance going forward. As stated in its 2019 annual report, the Company plans to tap into the broader clean energy sector and develop other forms of clean energy business, such as gas, heating and hydrogen energy, on the back of its established solar energy, wind energy and stored energy businesses with an ultimate goal to developing into a clean energy industry cluster with multiple capabilities and complementary advantages.

The Acquisition is in line with the Group's strategy to strengthen its financial performance while the Group seeks to expand its portfolio of clean energy projects going forward. The Target Company is fully operational and can generate a positive income (and profit) while the Group needs not invest in the construction of a new thermal/steam power project with the risks of cost overruns or delays in completion and production. The steam distribution business of the Target Company also provides a good opportunity for the Group to gain deeper understandings of a different form of heating business other than solar thermal. In addition, as the Target Company carries out its business in Shandong Province, it allows the Group to extend its projects footprint to the East China region and leverage on the resources of the Shuifa Group in Shandong.

Considering that the Acquisition is in line with the future development plans of the Group and the Target Company is fully operational and can generate a positive income (and profit) with limited capital investment in the future, the Directors are of the view that the terms of the Sale and Purchase Agreement, the Acquisition and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratios in respect of the Acquisition is greater than 5% but less than 25%, as calculated under Rule 14.07 of the Listing Rules, the Acquisition constitutes a discloseable transaction for the Company and is subject to the notification and publication requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Vendor is a wholly owned subsidiary of Shuifa Energy. Shuifa Energy is the controlling shareholder of the Company indirectly holding 1,687,008,585 Shares, representing approximately 66.92% of the issued share capital in the Company. Therefore, the transactions contemplated under the Sale and Purchase Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 5% but is less than 25%, the Acquisition is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As each of Mr. Zheng Qingtao, the chairman of the Board, Mr. Chen Fushan, an executive Director and Mr. Wang Dongwei, an executive Director, is also a director of Shuifa Energy, they are regarded as having a material interest in the Acquisition. Mr. Zhang Jianyuan, a non-executive Director, is also a director of the Vendor, and he is also regarded as having a material interest in the Acquisition. As such, each of Mr. Zheng Qingtao, Mr. Wang Dongwei, Mr. Chen Fushan and Mr. Zhang Jianyuan has abstained from voting in the Board meeting to approve the Sale and Purchase Agreement. Save as disclosed above, none of the other Directors attended the Board meeting has a material interest in the Acquisition.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Dr. Wang Ching, Mr. Yick Wing Fat, Simon and Dr. Tan Hongwei, has been established to consider the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, and to advise the Independent Shareholders as to whether they are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Sale and Purchase Agreement.

SGM

The SGM will be convened for the Independent Shareholders to consider, and if thought fit, to approve the Acquisition and the transactions contemplated under the Sale

The Directors (including the Independent Board Committee) consider that while the entering into of the Sale and Purchase Agreement was not in the ordinary and usual course of business of the Group, the Acquisition is on normal commercial terms and the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition.

FURTHER INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

Shareholders and potential investors should note that completion of the Acquisition is subject to the satisfaction of the conditions precedent set out in the Sale and Purchase Agreement and may or may not proceed. Shareholders and investors are reminded to exercise caution when dealing in the securities of the Company.

By order of the Board
China Shuifa Singyes Energy Holdings Limited
Mr. Zheng Qingtao
Chairman

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

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Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement.

Yours Faithfully,
The Independent Board Committee of
China Shuifa Singyes Energy Holdings Limited

Dr. Wang Ching
Independent Non-executive Director

Mr. Yick Wing Fat, Simon
Independent Non-executive Director

Dr. Tan Hongwei
Independent Non-executive Director

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises Mr. Zheng Qingtao as Chairman and executive Director, Mr. Liu Hongwei as Vice Chairman and executive Director; and Mr. Wang Dongwei and Mr. Chen Fushan as executive Directors, Ms. Wang Suhui and Mr. Zhang Jianyuan as non-executive Directors; and Dr. Wang Ching, Mr. Yick Wing Fat, Simon and Dr. Tan Hongwei as independent non-executive Directors.

As each of Mr. Zheng Qingtao, the Chairman of the Board, Mr. Chen Fushan, an executive Director and Mr. Wang Dongwei, an executive Director, is also a director of Shuifa Energy, they are regarded as having a material interest in the Acquisition. Mr. Zhang Jianyuan, a non-executive Director, is also a director of the Vendor, and he is also regarded as having a material interest in the Acquisition. As such, each of Mr. Zheng Qingtao, Mr. Wang Dongwei, Mr. Chen Fushan and Mr. Zhang Jianyuan has abstained from voting in the Board meeting to approve the Sale and Purchase Agreement. Save as disclosed above, none of the other Directors attended the Board meeting has a material interest in the Acquisition.

The Independent Board Committee, comprising all the aforementioned independent non-executive Directors, has been established to consider the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, and to advise the Independent Shareholders as to whether they are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We, Red Sun Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, Shuifa Energy, Shuifa Group, the Vendor and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Sale and Purchase Agreement and the transactions contemplated thereunder. During the past two years, we have acted as the independent financial adviser to the then independent board committee and the then independent shareholders of China Singyes New Materials Holdings Limited, which is a non wholly-owned subsidiary of the Company, details of which are set out in the relevant circular of that company dated 16 October 2019 in relation to a connected transaction.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

IV. BASIS OF OUR ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations contained or referred to in the Circular and the information and representations provided to us by the Group and/or the Directors and/or senior management (the "**Management**"). We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Directors and/or the Management and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the date of the Circular. We have assumed that all the opinions, beliefs and representations made or provided by the Directors and/or the Management contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Directors and/or the Management that no material facts have been omitted from the information provided and referred to in the Circular.

We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Company, the Vendor, the Target Company and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate. We have also relied on the Valuation Report conducted by the Valuer commissioned by the Company.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. Shareholders should also note both the valuation involves various basis and assumptions and the appraised value may change if those basis and assumptions are modified.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Sale and Purchase Agreement and the transactions contemplated thereunder, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the Sale and Purchase Agreement and the transactions contemplated thereunder, we have taken the following principal factors and reasons into consideration:

1. Information of the Group

1.1 Background of the Group and the Purchaser

The Group is a professional renewable energy solution provider and building contractor. Its main businesses are design, fabrication and installation of curtain wall, green building and solar projects (including Building Integrated Photovoltaic (BIPV) system, roof top solar system and ground mounter solar systems, collection Solar EPC). It also engages in the production and sale of renewable energy goods, including smart grid system and solar thermal products such as air-source heat pump, solar heat collectors and solar heating systems. Since the year ended 31 December 2014, the Group has also self-developed solar projects, some of which the Group has sold in prior years to enhance its cashflow position and allow the Group to reallocate its resources for future development.

The Purchaser is a company incorporated in the PRC engaged in the research and development of electricity and new energy. It is wholly-owned by the Company, the investment holding company that holds the other members of the Group.

1.2 Financial information of the Group

Set out below is a summary of the financial results of the Group, as extracted and summarised from the published annual report of the Group for the year ended 31 December 2019 (the "**2019 Annual Report**") and the interim results announcement of the Group for the six months ended 30 June 2020 (the "**2020 Interim Results Announcement**"):

	For the year ended 31 December		For the six months ended 30 June	
	2018	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	**4,416,563**	**3,306,519**	**1,148,380**	**1,979,730**
— Construction contracts	3,604,165	2,646,045	886,027	1,626,584
— Sale of products	665,678	518,088	200,843	286,340
— Rendering of design and consultation services	13,983	9,608	5,157	3,990
— Rendering of operation and maintenance service	13,119	—	—	—
— Sale of electricity	119,618	132,778	56,353	62,816
Gross profit/(loss)	**620,901**	**28,270**	**(61,144)**	**242,224**
Profit/(loss) attributable to owners of the Company	**(678,801)**	**(995,228)**	**(468,024)**	**217,580**

For the six months ended 30 June 2020 compared to the six months ended 30 June 2019

Based on the 2020 Interim Results Announcement, the Group's revenue for the six months ended 30 June 2019 and 2020 was approximately RMB1.2 billion and RMB2.0 billion, respectively, representing an increase of approximately 66.7%. Such increase was mainly attributable to the increase in revenue generated from the Group's construction contracts from approximately RMB900 million for the six months ended 30 June 2019 to approximately RMB1.6 billion for the six months ended 30 June 2020. Revenue generated from construction contracts accounted for approximately 82.2% of the Group's total revenue for the six months ended 30 June 2020. The Group recorded a gross loss of approximately RMB61.1 million and a gross profit of approximately RMB242.2 million for the six months ended 30 June 2019 and 2020, respectively. The Group recorded a loss attributable to owners of the Company of approximately RMB468.0 million and a profit attributable to owners of the Company of approximately RMB217.6 million for the six months ended 30 June 2019 and 2020, respectively.

For the year ended 31 December 2019 compared to the year ended 31 December 2018

Based on the 2019 Annual Report, the Group's revenue for the year ended 31 December 2018 and 2019 was approximately RMB4.4 billion and RMB3.3 billion, respectively, representing a decrease of approximately 25.0%. Such decrease was mainly attributable to the decrease in revenue generated from the Group's construction contracts from approximately RMB3.6 billion for the year ended 3

2. Overview of the economy and heat supply market in PRC

Based on the latest data published in the website of the National Bureau of Statistics of China (the "**NBS**"), the urban population increased from 813.5 million in 2017 to 831.4 million in 2018 and further increased to approximately 848.4 million in 2019, representing a year-on-year increase of approximately 2.2% and 2.0%, respectively. Meanwhile, we also noted that promotion of urbanisation remains one of the main objectives of the PRC government under its thirteenth five-year plan (十三五規劃), which sets out the overall direction of PRC governmental policies from 2015 to 2020. Pursuant to the thirteenth five-year plan, the PRC government has set the target for the percentage of permanent urban residents at 60% by 2020. The stable increase in the urban population has accelerated the construction of industrial and residential area and further created increasing demands for the heat supply services.

The table below shows a summary of the PRC's urbanisation levels from 2015 to 2019:

	2015	**2016**	**2017**	**2018**	**2019**
Total Population *(in millions)*	1,347.6	1,382.7	1,390.1	1,395.4	1,400.1
Urban Population *(in millions)*	771.2	793.0	813.5	831.4	848.4
Urbanisation Rate *(%)*	56.1%	57.3%	58.5%	59.6%	60.6%

Source: NBS

The PRC government has issued a series of policies to emphasize the importance of heat supply with clean energy. According to the Action Plan for Improving Energy Conservation and Environmental Friendliness of Coal-fired Boilers circulated in 2014, the PRC government has encouraged the elimination of coal-fired boilers with limited capacity in the region covered by urban heating pipelines. In addition, according to the Three-year Action Plan for Winning the Blue Sky Defense War by the State Council in 2018, the PRC government has called for eliminating the small coal-fired boilers, speeding up heating pipelines construction and improving the municipal heating infrastructure. Furthermore, the thirteenth five-year plan for urban municipal infrastructure construction released by the National Development and Reform Commission of the PRC and the Ministry of Housing and Urban-Rural Development of the PRC in 2017 also proposed to improve the heating quality and the municipal infrastructure. According to data from the NBS, the central heating area expanded from 8.78 billion square meters in 2018 to 10 billion square meters in 2019. Based on the above policies, it is expected that there will be sustainable demand and ongoing development in the heat supply market in the PRC.

3. Information of the Target Company

The Target Company was established in Zibo City, Shandong Province, PRC in April 2017 and is principally engaged in the distribution of industrial-use pipeline steam for heating purposes to companies located inside the Qilu Chemical Industrial Park (the "**Park**") in Zibo City, Shandong Province. As at the Latest Practicable Date, the Target Company's pipeline network covers an area of approximately 17 km^2 and serves 71 companies inside the Park, details of which are set out in the Letter from the Board.

The Target Company is owned as to 47.5% by the Vendor, as to 39% by Linre New Energy, as to 10% by Luyin Suhua and 3.5% by Jinan Linhua Partnership. As at the Latest Practicable Date, Linre New Energy was ultimately owned by Li Desheng, Li Wenchao and Zhu Xiaochen, Luyin Suhua was owned by Wang Chen and Jinan Linhua Partnership is a limited partnership held by 20 persons who are directors or employees of Shuifa Energy or its subsidiaries. As at the Latest Practicable Date, each of Mr. Zheng Qingtao, the Chairman and executive Director, and Mr. Wang Dongwei, an executive Director, holds 14.57% and 7.28% interest, respectively, both as limited partners of Jinan Linhua Partnership. As at the Latest Practicable Date, the Steam Co was owned by Zhu Lihua and Zhao Zhiliang. Save as disclosed above, to the best of information, knowledge and belief of the Directors having made all reasonable enquiries, none of the other shareholders of the Target Company or their ultimate beneficial owners or the Steam Co or its ultimate beneficial owners, as at the Latest Practicable Date, is a connected person of the Company.

Based on the consolidated financial statements of the Target Company prepared in accordance with the PRC Generally Accepted Accounting Principles ("**PRC GAAP**"), the profit or loss of the Target Company before and after taxation is as follows:

	For the six months ended 30 June 2020	**For the financial year ended 31 December 2019**	**31 December 2018** *(Note)*
	(unaudited)	*(audited)*	*(audited)*
	RMB	*RMB*	*RMB*
Profit/(loss) before tax	29,443,064.51	6,640,780.64	(678,131.36)
Profit/(loss) after tax	22,076,347.77	5,129,344.24	(678,131.36)

Note: The losses for the year ended 31 December 2018 were mainly attributable to expenses of staff hired incurred in anticipation of the acquisition of the pipeline network engaging in steam distribution operations.

As at 30 June 2020, the unaudited consolidated net assets value of the Target Company under PRC GAAP was RMB147,861,284.9.

Immediately after Completion, the Target Company will be controlled by the Purchaser as to 51% of its voting rights and will become a non wholly-owned subsidiary of the Company. Accordingly, the financial results of the Target Company will be consolidated into the Company's consolidated financial statements upon Completion.

4. Reasons for and benefits of the Acquisition

As set out in the Letter from the Board, following completion of the whitewash transaction by which Shuifa Energy became a majority shareholder of the Company in late November 2019 and completion of the debt restructuring scheme in December 2019, the Company has been exploring ways by which the Group can expand its clean energy business and strengthen its financial performance going forward. As stated in the 2019 Annual Report, the Company plans to tap into the broader clean energy sector and develop other forms of clean energy business, such as gas, heating and hydrogen energy, on the back of its established solar energy, wind energy and stored energy businesses with an ultimate goal to developing into a clean energy industry cluster with multiple capabilities and complementary advantages.

The Acquisition is in line with the Group's strategy to strengthen its financial performance while the Group seeks to expand its portfolio of clean energy projects going forward. The Target Company is fully operational and can generate a positive income (and profit) while the Group needs not invest in the construction of a new thermal/steam power project with the risks of cost overruns or delays in completion and production. The steam distribution business of the Target Company also provides a good opportunity for the Group to gain deeper understandings of a different form of heating business other than solar thermal. In addition, as the Target Company carries out its business in Shandong Province, it allows the Group to extend its projects footprint to the East China region and leverage on the resources of the Shuifa Group in Shandong.

Considering that the Acquisition is in line with the future development plans of the Group and the Target Company is fully operational and can generate a positive income (and profit) with limited capital investment in the future, the Directors are of the view that the terms of the Sale and Purchase Agreement, the Acquisition and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Having considered that (i) the Target Company already made a profit for the year ended 31 December 2019; and (ii) the Acquisition is in line with the Group's stated strategy to grow into an enterprise with a focus on clean energy business, we concur with the Directors that the Acquisition is in line with the business development strategy and future plan of the Group and is in the interests of the Company and its Shareholders as a whole.

5. Principal terms of the Sale and Purchase Agreement

Set out below is a summary of the principal terms of the Sale and Purchase Agreement. For further details, please refer to the Letter from the Board.

i. Date

11 September 2020

ii. Parties:

(i) Hunan Singyes Green Energy Co., Ltd.* (湖南興業綠色能源股份有限公司), a wholly-owned subsidiary of the Company, as Purchaser;

(ii) Shandong Shuifa Clean Energy Technology Co., Ltd.* (山東水發清潔能源科技有限公司) as Vendor; and

(iii) Zibo Qilu Chemical Industry Zone Thermal Co., Ltd.* (淄博齊魯化學工業區熱力有限公司) as Target Company

As at the Latest Practicable Date, the Vendor is a wholly-owned subsidiary of Shuifa Energy, which is the controlling shareholder (and therefore a connected person) of the Company indirectly holding approximately 66.92% of the issued share capital of the Company. The Target Company, being owned as to 47.5% by the Vendor and therefore an associate of the Vendor, is also a connected person of the Company.

iii. Subject Matter

The subject matter of the sale and purchase under the Sale and Purchase Agreement is 47.5% equity interest in the Target Company held by the Vendor.

iv. Consideration

The consideration payable by the Purchaser to the Vendor for the Acquisition is RMB190,000,000 (approximately HK$211,111,111), which shall be payable by the Purchaser to the Vendor in cash in three instalments as follows:

Instalment	**Amount** *(RMB)*	**Due date**
1	60,000,000	Within seven PRC business days after the Purchaser is satisfied that it has been registered as the 47.5% shareholder of the Target Company with the local Administration for Industry and Commerce.
2	60,000,000	On the later of 30 October 2020 or two months following Completion, or any other date as may be agreed by the Purchaser and the Vendor
3	70,000,000	On the later of 31 December 2020 or three months following Completion, or any other date as may be agreed by the Purchaser and the Vendor

The consideration for the Acquisition was determined after arm's length negotiation between the Purchaser and the Vendor by reference to, among other things, the historical financial performance of the Target Company, the supply and existing and perceived demand for steam in Qilu Chemical Industrial Park in Zibo City, Shangdong Province in which the Target Company operates, the Target Company's steam distribution contracts at hand as at the Latest Practicable Date and the terms of the long term steam supply agreement with Steam Co and the price for steam supply. In addition, the Purchaser also took into account the valuation of the 47.5% equity interest in the Target Company at approximately RMB199,000,000 as at 31 March 2020 by the Valuer in the Valuation Report set out in Appendix I to the Circular.

v. Conditions Precedent

Completion of the Acquisition is conditional upon the satisfaction (or waiver, as the case may be) of certain conditions precedent, details of which are set out in the Letter from the Board.

vi. Assignment of Rights, Profit Undertaking and Put Option

Under the Previous Share Transfer Agreement, the Vendor enjoyed the benefit of the Profit Undertaking provided by Linre New Energy. Such benefit will be assigned to the Purchaser under the Assignment of Rights as follows:

(a) If the audited net profit (after extraordinary items) of the Target Company for any given financial year during the period from 1 January 2020 to 31 December 2044 is less than RMB63 million, Linre New Energy agreed to compensate the shortfall multiplied by the shareholding percentage held by the Purchaser in the Target Company in cash, which can be satisfied by Linre New Energy directing that the amount of its dividends entitlement from the Target Company be paid instead to the Purchaser.

(b) If the audited net profit (after extraordinary items) of the Target Company is less than RMB63 million for any three consecutive years during the period mentioned in paragraph (a) above, other than due to force majeure events (such as major natural disasters, social unrest, terrorist activities and wars) (the "**Three-Year Shortfall**"), the Purchaser has the right to require Linre New Energy to double the compensation to the Purchaser set out in paragraph (a) above for any further breach of the Profit Undertaking until the Target Company meets the Profit Undertaking again.

In addition, under the Previous Share Transfer Agreement, the Vendor had the right to require Linre New Energy to purchase the 47.5% equity interest in the Target Company under certain circumstances at its original acquisition price plus penalty/interest (which will not be transferred to the Purchaser under the Assignment of Rights, since the Vendor's acquisition price is lower than that payable under the Sale and Purchase Agreement). Under the Sale and Purchase Agreement, the Purchaser is given the right to require the Vendor to purchase the 47.5% interest in the Target Company under the same circumstances at the purchase price of RMB190,000,000 payable under the Sale and Purchase Agreement plus interest accrued thereon at the one-year Loan Prime Rate published by the People's Bank of China from the date of receipt of the consideration by the Vendor to the date of completion of such purchase, upon the occurrence of the following events:

(i) if a Three-Year Shortfall arises and the Purchaser elects not to require Linre New Energy to pay double compensation for any further breach of the Profit Undertaking; or

(ii) if the business of the Target Company is unable to operate in the usual way for over three months due to any issue relating to the Target Company's right to operate exclusively in its operating area, the breach of any term of the Previous Share Transfer Agreement by Linre New Energy and/or the breach of the steam supply contract by the Steam Co.

We have discussed with the Management in relation to the Assignment of Rights, Profit Undertaking and put option and noted that such right, undertaking and option are additional protective measures, we therefore concur with the Management that the Assignment of Rights, Profit Undertaking and put option are additional benefits to protect the Company which is in the interests of the Company and the Shareholders as a whole.

vii. Completion

Completion is to take place on the date of registration with the local Administration for Industry and Commerce of the Purchaser as shareholder of the Target Company in respect of 47.5% equity interest. Such registration is required to completed within 15 PRC business days after parties to the Sale and Purchase Agreement have confirmed that all conditions precedent under the Sale and Purchase Agreement are satisfied (to the extent not waived). Subject to the fulfilment (to the extent not waived) of such conditions precedent, Completion shall take place on or before the date falling on the 60^{th} day after the date of the Sale and Purchase Agreement.

viii. SHA

One of the conditions precedent in the Sale and Purchase Agreement requires the Target Company, the Purchaser and the other shareholders of the Target Company at Completion to enter into the SHA to regulate the management of the Target Company. The SHA will take effect upon Completion. Under the SHA,

(a) the Purchaser (in replacement of the Vendor) is to be entitled to nominate three of the five directors of the Target Company including the chairman of the board and Linre New Energy is entitled to nominate one director. The remaining director is to be a representative of the employees of the Target Company elected by the employees;

(b) Jinan Linhua Partnership, a 3.5% shareholder of the Target Company, will entrust irrevocably the Purchaser at its sole discretion from time to time to exercise on behalf of Jinan Linhua Partnership the 3.5% voting rights attached to the equity interest held by Jinan Linhua Partnership in the Target Company. As such, upon Completion, the Purchaser will control 51% voting rights in the Target Company; and

(c) the Purchaser is also to be entitled to nominate the financial manager of the Target Company.

6. Assessment of the consideration

As set out in the Letter from the Board, the consideration for the Acquisition was determined after arm's length negotiation between the Purchaser and the Vendor by reference to, among other things, the historical financial performance of the Target Company, the supply and existing and perceived demand for steam in Qilu Chemical Industrial Park in Zibo City, Shangdong Province in which the Target Company operates, the Target Company's steam distribution contracts at hand as at the Latest Practicable Date and the terms of the long term steam supply agreement with Steam Co and the price for steam supply. In addition, the Purchaser also took into account the valuation of the 47.5% equity interest in the Target Company at approximately RMB199,000,000 as at 31 March 2020 by the Valuer in the Valuation Report.

In assessing the fairness and reasonableness of the consideration for the Acquisition, we have obtained and reviewed the Valuation Report prepared by the Valuer. We have also reviewed and enquired with the Valuer/Management (i) qualification and experience of the Valuer in relation to the preparation of the Valuation Report; (ii) the key assumptions, including but not limited to, certain signed sales contracts, a letter of intent with an existing customer and a memorandum of understanding signed by the Target Company in February and July 2020, respectively and published government policies; and (iii) valuation procedures conducted by the Valuer for conducting the valuation. Furthermore, we have reviewed the terms of engagement of the Valuer and noted that the scope of work is appropriate to the valuation. The Valuer has also confirmed its independence.

Valuation assumption and methodology

We have reviewed the Valuation Report and discussed with the Valuer regarding the methodology, basis and assumptions adopted in arriving at the valuation of the 47.5% equity interest in the Target Company as at 31 March 2020 (the "**Valuation**").

As set out in the Valuation Report, the Valuer has considered three generally accepted valuation approaches, namely, the market-based approach, income-based approach and asset-based approach. Given that (i) the market-based approach was not adopted because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were unavailable; (ii) the asset-based approach was also not adopted because it could not capture the future earning potential and thus market value of the Target Company; and (iii) the income approach can capture the future earning potential of the Target Company, the Valuer considered the adoption of the income-based approach in determining the Valuation. Having considered the abovementioned limitations in applying the market-based approach and asset-based approach, we concur with the Valuer that the adoption income-based approach in arriving at the Valuation.

Discount rate

When applying income-based approach to estimate the Valuation, it is necessary to determine an appropriate discount rate under review. We note that the Valuer has used the weighted average cost of capital ("**WACC**") to estimate the required rate of return of the Target Company. We understand that the WACC technique is widely accepted in the investment and financial analysis

Cash flow projection

Estimates on future operation and revenue of the Target Company are conducted through analysis over revenue, costs, useful life of stream pipelines and capital expenditure. We note that the Valuer has relied to a considerable extent on the cash flow projection of the Target Company from 1 April 2020 to 31 March 2039 prepared by the Management ("**Cash Flow Projection**") when preparing the Valuation Report. Accordingly, we have discussed with the Management in relation to the basis and assumptions used when preparing the Cash Flow Projection, and noted that the Management has considered the historical and estimated performance of the Target Company.

As stated in section headed "8.4.5.1 Terms" in the Valuation Report set out in Appendix I to the Circular, the steam pipelines have a maximum useful life of 25 years. We have reviewed (i) the 《城鎮供熱管網設計規範》 published by the Ministry of Housing and Urban-Rural Development of the PRC which also stated that the steam pipelines have a maximum useful life of 25 years; and (ii) a 20-year steam supply contract that expires in October 2039 (the "**Steam Supply Contract**"), under which the Target Company has secured from the Steam Co commitment to supply steam to the Target Company. As the steam pipelines acquired from Steam Co's have been used for five years as at the date of Valuation, we therefore concur with the Management that the operation of the Target Company will have a remaining useful life until 2039.

Moreover, we have reviewed a schedule containing a list of customers with the total steam sales volume consumed from 2017 to first quarter of 2020 and the correspondent selling price of steam per ton, such schedule forms the basis for calculating the average selling price of steam after VAT per ton (i.e. RMB166.73 per ton) for the industrial users which was used in the preparation of the Cash Flow Projection (the "**Average Selling Price Schedule**"). In this respect, we have also selected eight signed sales contracts between the Target Company/Steam Co and their customers for sample checking purpose. Based on our review, the selling prices of steam stated in the Average Selling Price Schedule are the same as stated in their respective signed sales contracts and the reviewed signed sales contracts range from one year to three years.

In addition, we have reviewed a schedule containing a list of customers of the Target Company and noted that there are a total of 71 industrial customers with the total steam sales volume of approximately 1.8 million tonnes per year which accounted for (i) 100% of the forecast sales volume in 2021 and 2022, respectively; and (ii) over 60.0% of the forecast sales volume from 2023 to 2039. Besides, as set out in the Letter from the Board, the Target Company is likely to remain a sole distributor of industrial-use steam in the Park as the management committee of the Park announced in April 2020 that no construction of new steam pipelines in the operating area of the Target Company will be approved.

Marketability discount

Moreover, in view of the fact the Target Company is a private company, the Valuer applied a marketability discount (the "**MD**") of approximately 15.8% to the equity interest of the Target Company based on their analysis and market average. The discount rate is determined by the Valuer with reference to the research result as published in the 2020 edition of FMV Restricted Stock Study Companion Guide. We have discussed with the Valuer and reviewed an extract of the 2020 edition of FMV Restricted Stock Study Companion Guide. Given that the 2020 edition of FMV Restricted Stock Study Companion Guide is an independent research study report which is designed to assist the valuation professional in determining MD, we concur with the view of the Valuer that the MD of 15.8% as set out in 2020 edition of FMV Restricted Stock Study Companion Guide is a valid reference for determining the MD for the Target Company and the MD of 15.8% applied to the Valuation is fair and reasonable.

Other assumptions

We have also reviewed the other assumptions including, among others, (i) the Target Company will continue to operate as planned by the Management; (ii) there will be no major change in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with; (iii) there will be no major change in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company; (iv) there will be sufficient supply of technical staff in the industry in which the Target Company operates, and the Target Company will retain competent management, key personnel and technical staff to support its ongoing operations and developments; and (v) all relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry. Please refer to section headed "9. Major Assumptions" in the Valuation Report set out in Appendix I to the Circular for details of key assumptions adopted by the Valuer.

The outbreak of novel coronavirus has inevitably been affecting the global economy. However, as advised by the Management, the outbreak of novel coronavirus is yet to have an immediate impact on the Target Company's business considering (i) most of its signed sales contracts range from one year to three years; (ii) its customers are located inside the Qilu Chemical Industrial Park, Zibo City, Shandong Province instead of Hubei province; and (iii) letter of intent with an existing customer and a memorandum of understanding signed by the Target Company in February and July 2020, respectively. Except for the cancellation of certain meetings with customers due to precaution, the overall operation of the Target Company has been stable since the outbreak of novel coronavirus up to the Latest Practicable Date.

We have also reviewed the 《「十三五」時期稅務系統全面推進依法治稅工作規劃》and we are not aware that there will be major change in the current taxation laws in the locality in which the Target Company operates and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with. Furthermore, as discussed with the Management, the Target Company did not encounter any legal obstacle that may adversely impact its daily operation or obtain relevant approvals and business certificates or licenses to operate the business.

In order to understand the relevant assumptions used in the Valuation, we have discussed with the Valuer and the Valuer has confirmed that the relevant underlying assumptions adopted in the Valuation are in line with common valuation practice and fair and reasonable. Based on (i) the overall operation of the Target Company has been stable since the outbreak of novel coronavirus; (ii) no major change in the current taxation laws; (iii) the discussion with the Management; and (iv) the review and discussion with the Valuer, we consider that the key assumptions used in the Valuation are fair and reasonable.

Alternative assessment

As an alternative analysis, we have conducted our own independent assessment on the consideration for the Acquisition to assess the fairness and reasonableness of the consideration for the Acquisition. The Target Company was established in Zibo City, Shandong Province, PRC in April 2017 and is principally engaged in the distribution of industrial-use pipeline steam for heating purposes. Based on the aforesaid factors, the following criteria were set for selection comparables for our assessment, (i) the shares of the comparable company are listed in the PRC or the Stock Exchange; and (ii) principally engaged in distribution of industrial-use pipeline steam (the "**Initial Criteria**"). Based on the Initial Criteria and on a best-effort basis, we were not able to identify any direct comparable company.

As a result, given (i) the purpose of this analysis is to obtain an overview of general market valuation of similar companies and that we would need to review a number of listed companies to obtain a representative view for general market valuation; and (ii) heat supply and steam supply are similar in nature by means of providing heat to users, we have expanded the Initial Criteria to cover listed companies which are principally engaged in heat and steam supply, with over 50% of revenue derived from heat and steam supply segment (together with the Initial Criteria, the "**Final Criteria**").

Based on the Final Criteria and on a best-effort basis, we have identified and reviewed six comparable companies (the "**Comparable Companies**"). Although the trading prospects and financial positions of the Comparable Companies may not be identical to the Target Company, we are of the view that the Comparable Companies would be valued by the market using similar valuation methodologies since they are mainly engaged in comparable businesses. Based on our best knowledge and information available, we consider the Comparable Companies are (i) an exhaustive list of relevant comparable companies based on the Final Criteria mentioned above; and (ii) a fair and representative sample for assessing the fairness and reasonable of the consideration for the Acquisition.

We have compared the price-to-earnings (the "**P/E**") ratio, and the price-to-book (the "**P/B**") ratio of the Comparable Companies with the Target Company, considering the P/E and P/B ratios are commonly accepted benchmarks in the comparison of valuation of companies against their industry peers. However, we noted that the Target Company only acquired the industrial-use steam distribution business and operations and all corresponding steam pipelines owned by the Steam Co in late October 2019 (details of which are set out in the Letter from the Board), hence the profit contributed from the distribution of stream by such acquired steam business for the year ended 31 December 2019 did not represent a full year operation result. In this regard, we consider historical P/E ratio is not an appropriate valuation benchmark in assessing the fairness and reasonableness of the Target Company as the operation result for such acquired steam business is less than a full year and hence is not representative of the future business performance of the Target Company.

Set out below is our analysis on the Comparable Companies:

Stock code	Name of company	Principal business	P/B ratio *(Note 1)* *times*
000692.CH	Shenyang Huitian Thermal Power Co Ltd	Principally engaged in providing heating and engineering services to residents and non-resident users	1.6
001853.HK	Jilin Province Chuncheng Heating Co Ltd	Principally engaged in providing heating services in Jilin Province	1.2
002893.CH	Beijing Huayuanyitong Thermal Technology Co Ltd	Principally engaged in heating pipe designing, pipe construction and pipeline transformation services	2.3

Stock code	Name of company	Principal business	P/B ratio *(Note 1)* *times*
600149.CH	Langfang Development Co Ltd	Principally engaged in providing heating and steam services to residents and non-resident users	9.2
600167.CH	Luenmei Quantum Co Ltd	Principally engaged in providing heating services	3.5
600719.CH	Dalian Thermal Power Co Ltd	Principally engaged in the generation and distribution of electric power and heat	2.3
		Minimum:	1.2
		Maximum:	9.2
		Average:	3.4

Having considered (i) the reasons and the benefits of the Acquisition as set out in "4. Reasons for and benefits of the Acquisition" above; (ii) the Assignment of Rights, Profit Undertaking and put option which will provide additional protective measures to the Company; (iii) the relevant qualification and experience of the Valuer; (iv) the Valuation set out in the Valuation Report; (v) the P/B ratio of the Target Company falls within the range of P/B ratios of the Comparable Companies; and (vi) the consideration for the Acquisition was determined, amongst others, with reference to the Valuation and represents a discount to the Valuation, we concur with the view of the Directors that the consideration for the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned.

VI. OPINION AND RECOMMENDATION

Having considered, among others,

(i) the Acquisition is in line with the Group's strategy to grow into an enterprise with a focus on clean energy business;

(ii) the information and analysis as set out under the section headed "2. Overview of the economy and heat supply market in PRC" above;

(iii) the reasons and the benefits of the Acquisition as set out in "4. Reasons for and benefits of the Acquisition" above; and

(iv) the consideration represents a discount to the fair value of the 47.5% equity interest in the Target Company based on the Valuation Report,

we consider that although the Acquisition is not in the ordinary and usual course of business of the Group, the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement.

Yours faithfully,
for and on behalf of
Red Sun Capital Limited
Jimmy Chung
Managing Director

Mr. Jimmy Chung is a Responsible Officer of Red Sun Capital to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and permitted to undertake work as sponsor. He has over 20 years of experience in corporate finance industry in Greater China.

* *For identification purposes only*

The following is extracted from the report prepared for the purpose of incorporation in this circular by Roma Appraisals Limited, an independent valuer, in connection with its valuation as at 31 March 2020.

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11 September 2020

China Shuifa Singyes Energy Holdings Limited
Unit 3108, 31/F,
China Merchants Tower,
Shun Tak Centre,
168–200 Connaught Road Central,
Hong Kong

Case Ref: KY/BV6219/MAY20/GW

Dear Sir/Madam,

Re: Valuation of 47.5% Equity Interest in 淄博齊　化學工業區□力有限公司

In accordance with the instructions from China Shuifa Singyes Energy Holdings Limited (hereinafter referred to as the "**Company**") to us to conduct a business valuation on 47.5% equity interest in 淄博齊魯化學工業區熱力有限公司 (hereinafter referred to as the "**Business Enterprise**"), we are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing our valuation as at 31 March 2020 (hereinafter referred to as the "**Date of Valuation**").

This report states the purpose of valuation, scope of work, an economic overview, an industry overview, an overview of the Business Enterprise, basis of valuation, investigation, valuation methodology, major assumptions, information reviewed, limiting conditions, remarks and opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. Roma Appraisals Limited (hereinafter referred to as "**Roma Appraisals**") acknowledges that this report may be made available to the Company for public documentation purpose only.

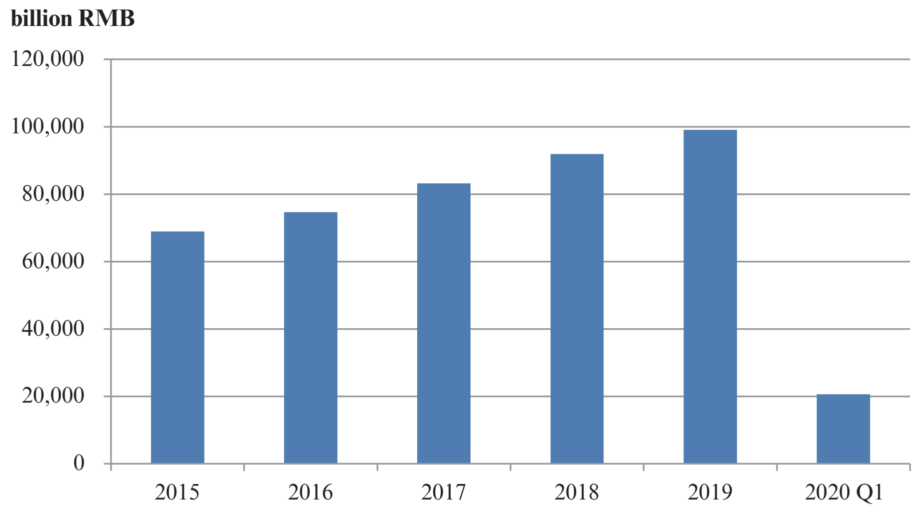
Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and on

Over the past five years from 2015 to 2019, compound annual growth rate of China's nominal GDP was 9.5%. An upward trend of China's nominal GDP was observed from 2015 to 2019. Figure 1 illustrates the nominal GDP of China from 2015 to 2020 Q1.

Figure 1 — China's Nominal GDP from 2015 to 2020 Q1



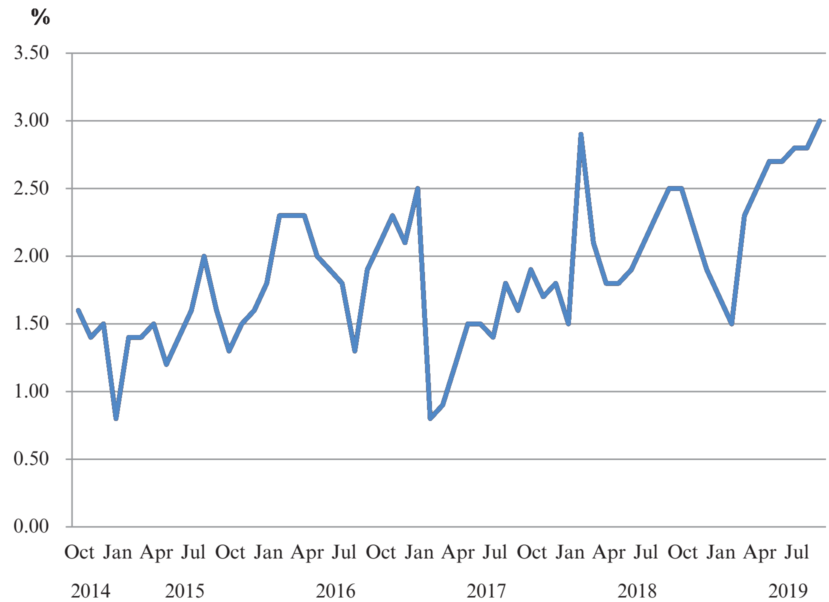
Source: National Bureau of Statistics of China

3.2 Inflation in China

Tackling inflation problem has long been the top priority of the Chinese government as high prices are considered as one of the causes of social unrest. For such a fast-growing economy, the middle-class' demand for food and commodities has been rising continuously. Inflation in China has been driven mainly by food prices, which have stayed high in 2011. According to the National Bureau of Statistics of China, the consumer price index ("**CPI**") demonstrated an uptrend in the first half of 2011. Thanks to the government's policies in suppressing commodity prices, the year-over-year change in CPI dropped to 1.5% in December 2014. During first half of 2015, the year-over-year change in CPI maintained at around 0.8% to 1.5%, and fluctuated around 1.3% to 2.0% in second half of 2015. In 2016, the year-over-year change in CPI dropped from 2.3% in January to 1.3% in August, but rose in the later months and arrived at 2.1% in December. In 2017, the year-over-year change in CPI dropped from 2.5% in January to 0.8% in February and increased to 1.8% in December. In 2018, the year-over-year change in CPI reached its peak at 2.9% in February but fluctuated around 1.8% to 2.1% in the middle of the year, it then rose again to 2.5% in September and fell back to 1.9% in December. In 2019, the year-over-year change in CPI increased from 1.7% in January to 4.5% in December.

Figure 2 shows the year-over-year change in CPI of China from October 2014 to December 2019.

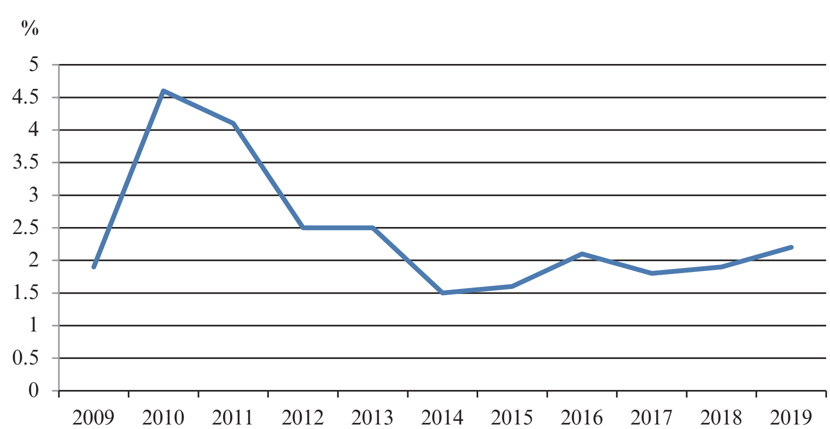
Figure 2 — Year-over-year Change in China's CPI from October 2014 to December 2019



Source: Bloomberg

China's inflation rate was volatile during the past decade. According to the IMF, the inflation rate in China increased from 2.8% in 2006 to 6.5% in 2007, and then dropped to 1.2% and 1.9% in 2008 and 2009 respectively. The inflation rate increased to 4.6% in 2010 and maintained at 4.1% in 2011. The inflation rate dropped again to 2.5% in 2012 and 2013, and further to 1.5% in 2014. The inflation rate has been fluctuating in recent years. It started to climb in 2015 and 2016 from 1.6% to 2.1%, then decreased in 2017 to 1.8%, eventually rose again to 1.9% in 2018. In 2019, the inflation rate increased to 2.2%. According to IMF's forecast, the long-term inflation rate of China is expected to be around 3.0%. Figure 3 shows the historical trend of China's inflation rate from 2009 to 2019.

Figure 3 — China's Inflation Rate from 2009 to 2019



Source: International Monetary Fund

4. INDUSTRY OVERVIEW

4.1 Overview of Heating Supply Industry in China

Driven by rising urbanization and industrialization in China, the heating power production and supply industry has been developing steadily. The industry in China produces steam and hot water through boilers using energy sources such as coal, oil and gas.

With reference to the "Report of Heating Power Production and Supply Industry

The consumption of steam in China was also supported by government policy. The supply of steam is limited by the network of the steam pipelines which mainly located in the northern China. Therefore, the central heating systems cannot be developed in the southern area easily. The government plans to accelerate the development of heating supply industry in Shanghai, Chongqing, Wuhan and other southern cities. This plan is expected to contribute about RMB235.2 billion of infrastructure investment in 2020.

5. OVERVIEW OF THE BUSINESS ENTERPRISE

The Business Enterprise is a company established in the China with limited liability. The Business Enterprise was incorporated in Zibo City, Shandong Province in April 2017.

The Business Enterprise is principally engaged in the distribution of steam to industrial customers in the Qilu Chemical Industry Zone in Zibo City. The steam supply contract was signed in 2019 (hereinafter referred to as the "**Steam Supply Contract**") and 淄博市臨淄熱電廠有限公司 (hereinafter referred to as the "**□電廠**") is going to produce and supply steam to the Business Enterprise for the use of industrial purpose.

According to the purchase agreement of pipelines, 熱電廠 has handed over the steam pipelines to the Business Enterprise with approximately length of 25 km and the book value was RMB110 million.

熱電廠 agreed to transfer all of its industrial customers to the Business Enterprise. The Business Enterprise has 71 industrial customers including the customers obtained from 熱電廠.

6. BASIS OF VALUATION

Our valuation is conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2020, **market value** is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

7. INVESTIGATION

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Business Enterprise. In addition, we have made relevant inquiries and obtained further information and statistical figures regarding the economy in China as we considered necessary for the purpose of the valuation.

We have had discussions with the Management in relation to the development, operations and other relevant information of the Business Enterprise. We have also consulted other sources of financial and business information. In arriving at our opinion of value, we have relied on the completeness, accuracy and representation of operational, financial and other pertinent data and information of the Business Enterprise as provided by the Management to a considerable extent.

The valuation of the Business Enterprise requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Business Enterprise;
- The financial condition of the Business Enterprise;
- The status and performance of the Business Enterprise;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market;
- Legal due diligence report;
- Relevant licenses and agreements; and
- The business risks of the Business Enterprise such as the ability in maintaining competent technical and professional personnel.

8. VALUATION METHODOLOGY

There are three generally accepted approaches to obtain the market value of the Business Enterprise, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

8.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

8.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

8.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("**equity and long term debt**"). Under the Asset-Based Approach, the market value of equity of a business entity refers to the market values of various assets and liabilities on the statement of financial position of the business entity as at the measurement date, in which the business entity value of each asset and liability was determined by reasonable valuation approaches based on its nature.

8.4 Business Valuation

In the process of valuing the Business Enterprise, we have taken into account the operation and financial information of the Business Enterprise, and conducted discussions with the Management to understand the status and prospect of the Business Enterprise, and the heating supply industry it is participating. Also, we have considered the accessibility to available data and relevant market transactions in choosing among the valuation approaches.

The Market-Based Approach was not adopted in this case because most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were unavailable. The Asset-Based Approach was also not adopted because it could not capture the future earning potential and thus market value of the Business Enterprise. In order to capture the future earning potential of the Business Enterprise, we have therefore considered the adoption of the Income-Based Approach in arriving at the market value of the Business Enterprise.

8.4.1 Discounted Cash Flow

Under the Income-Based Approach, we have adopted the discounted cash flow ("**DCF**") method, which is based on a simple reversal calculation to restate all future cash flows in present terms. The expected free cash flow for each year was determined as follows:

Expected Free Cash Flow = Net Profit + Depreciation – Change in Net Working Capital – Capital Expenditure

The present value of the expected free cash flows was calculated as follows:

$$PVCF = CF_1/(1+r)^1 + CF_2/(1+r)^2 + \ldots + CF_n/(1+r)^n$$

In which
PVCF = Present value of the expected free cash flows;
CF = Expected free cash flow;
r = Discount rate; and
n = Number of years.

To adopt this method, we obtained the weighted average cost of capital ("**WACC**") of the Business Enterprise as a basic discount rate. WACC of the Business Enterprise is the minimum required return that the Business Enterprise must earn to satisfy various capital providers including shareholders and debt holders. WACC calculation takes into account the relative weights of debt and equity. It is computed using the formula below:

$$WACC = W_e \times R_e + W_d \times R_d \times (1 - T_c)$$

In which
R_e = *Cost of equity;*
R_d = *Cost of debt;*
W_e = *Weight of equity value to enterprise value;*
W_d = *Weight of debt value to enterprise value; and*
T_c = *Corporate tax rate.*

8.4.2 Cost of Debt

The cost of debt was determined by the expected borrowing rate of the Business Enterprise to finance the Business Enterprise. Since the interest expenses paid on debts are tax-deductible for the Business Enterprise, the cost of the Business Enterprise to get debt funds is less than the required rate of return of the

8.4.3 Cost of Equity

The cost of equity was determined using the Capital Asset Pricing Model ("**CAPM**"), which describes the relationship between the risk of the Business Enterprise and expected return to investors. It is calculated by the following formula:

$$R_e = R_f + \beta \times \text{Market Risk Premium} + \text{Other Risk Premium}$$

In which
R_e = *Cost of equity;*
R_f = *Risk-free rate; and*
β = *Beta coefficient.*

8.4.4 Discount Rate

In the process of determining the WACC, we adopted several listed companies with similar business scopes and operations to the Business Enterprise as comparable companies. The Business Enterprise principally engaged in the distribution of steam to industrial customers located inside the Qilu Chemical Industry Park in Zibo City. However, there are insufficient listed companies which are principally engaged in the steam distribution business. Therefore, we expanded the selection criteria of product segment to heat and steam supply industry in China. The comparable companies were selected mainly with reference to the following selection criteria:

- The companies are principally engaged in the heating supply industry in China. According to the disclosure of the comparable companies in their annual reports, those comparable companies are principally engaged in heat and steam supply segment and some other heat and steam related development business, for example the steam pipelines development;
- The companies have sufficient listing and operating histories; and
- The financial information of the companies is available to the public. Details of the comparable companies adopted were listed as follows:

Company Name	**Stock Code**	**Listing Location**	**Business Description**
Shenyang Huitian Thermal Power Co., Ltd.	000692.CH	China	Shenyang Huitian Thermal Power Co., Ltd. operates in city centralized heat supply business and provides heating engineering services. The company also develops and manages in real estate properties.

Company Name	Stock Code	Listing Location	Business Description
Zhejiang Fuchunjiang Environmental Thermoelectric Co., Ltd.	002479.CH	China	Zhejiang Fuchunjiang Environmental Thermoelectric Co., Ltd. operates the business of solid waste power generation and thermal power generation. The company engages in the co-generation of heat and power with its main products including steam and electricity.
Beijing Huayuanyitong Thermal Technology Co., Ltd.	002893.CH	China	Beijing Huayuanyitong Thermal Technology Co., Ltd. operates as a heating company. The company offers heating pipe designing, pipe construction, and pipeline transformation services. The company provides services in China.
Langfang Development Co., Ltd.	600149.CH	China	Langfang Development Co., Ltd. operates metal distribution businesses. The company sells steels and other metal materials. The company conducts businesses in China.
Luenmei Quantum Co., Ltd.	600167.CH	China	Luenmei Quantum Co., Ltd. transfers land, leases properties, and provides civil engineering services. The company also supplies heat and water throughout China.
Dalian Thermal Power Co., Ltd.	600719.CH	China	Dalian Thermal Power Co., Ltd. operates thermal electric stations in the city of Dalian. The company generates electricity and distributes and sells steam to residential, commercial, and industrial customers.

Source: Bloomberg

Notes: According to the description of product segment as extracted from Bloomberg, Beijing Huayuanyitong Thermal Technology Co., Ltd. (002893.CH) and Langfang Development Co., Ltd. (600149.CH) are principally engaged in heating services and heating business in China.

According to the annual reports of the comparable companies, the metal distribution and land transfer business in only a small part of the business of Langfang Development Co., Ltd. (600149.CH) and Luenmei Quantum Co., Ltd. (600167.CH). For Luenmei Quantum Co., Ltd. (600167.CH), lower than 1% of revenue was contributed from land transfer and properties lease business in 2019. For Langfang Development Co., Ltd. (600149.CH), no revenue was contributed from metal distribution businesses in 2019. Those small business do not have material impact on the comparable companies' financial figures.

Below is the summary of the key parameters of the WACC of the Business Enterprise adopted as at the Date of Valuation:

Key Parameters		**As at 31 March 2020**
a)	Risk-free Rate	2.59%
b)	Market Risk Premium	10.21%
c)	Beta Coefficient	1.08
d)	Size Premium	3.16%
e)	Firm Specific Risk Premium	2.00%
f)	Cost of Equity	18.78%
g)	Cost of Debt	4.90%
h)	Weight of Equity Value to Enterprise Value	66.37%
i)	Weight of Debt Value to Enterprise Value	33.63%
j)	Corporate Tax Rate	25.00%
	WACC	**13.70%**

Notes:

a) The risk-free rate adopted was the yield rate of China 10-year government bond as at the Date of Valuation as extracted from Bloomberg.

b) The market risk premium adopted was the equity market risk premium of China as at the Date of Valuation as extracted from Bloomberg.

c) The beta coefficient adopted was the median adjusted beta of the comparable companies as extracted from Bloomberg.

d) The size premium adopted was the size premium for micro-cap companies with reference to the size premium study conducted by Duff & Phelps which is the world's premier provider of governance, risk and transparency solutions.

e) The firm specific risk premium adopted was to reflect the status and business risk of the Business Enterprise as at the Date of Valuation.

f) The cost of equity was determined based on Capital Asset Pricing Model ("**CAPM**").

g) The cost of debt adopted was estimated with reference to China 5-year base lending rate.

h) The weight of equity value to enterprise value adopted was derived from the median debt-to-equity ratio of the comparable companies as at the Date of Valuation as extracted from Bloomberg.

i) The weight of debt value to enterprise value adopted was derived from the median debt-to-equity ratio of the comparable companies as at the Date of Valuation as extracted from Bloomberg.

j) The corporate tax rate adopted was the corporate tax rate in China.

Hence, we adopted the WACC of 13.70% for the Business Enterprise as at the Date of Valuation.

8.4.5 Major Assumptions of Cash Flow Projection

8.4.5.1 Terms

According to the "蒸汽管網設計使用年限說明" published by ShanDong Heat Energy and Electric Power Designing Institute, the steam pipelines have a maximum useful life of 25 years and the steam pipelines acquired from 熱電廠 have been used for 5 years as at the Date of Valuation.

After taking into account the remaining useful life of the steam pipelines, the operation of the Business Enterprise will end in 2039 as advised by the Management.

8.4.5.2 Revenue and Cost

The revenue from steam sales to industrial users was estimated based on the forecast selling price and the forecast sales volume. For the selling price, the Management has made reference to the historical selling price of the signed sales contract between the Business Enterprise or 熱電廠 and the customers from January 2017 to March 2020 which were acquired by the Business Enterprise. The average selling price of steam after VAT was RMB166.73 per ton for the industrial users. The selling price is assumed to remain constant.

The volume was estimated with reference to the historical steam supply volume to the customers from January 2017 to March 2020. In 2019, 熱電廠 agreed to transfer all of its downstream customers who are industrial users of stream to the Business Enterprise. The volume estimated was based on the historical steam supply record from those clients plus some new contracts. As advised by the Management, the forecast sales volume were listed as follows:

Year	**2021**	**2022**	**2023**	**2024**	**2025 to 2039**
Steam Supply Volume *('000 Ton)*	1,535.3	1,735.3	2,235.3	2,735.3	2,800.0

The cost of steam sold to industrial users was the product of the purchase price per unit and the volume. With reference to the Steam Supply Contract, 熱電廠 will supply not less than 2 million ton of steam each year. According to the Steam Supply Contract, the price difference between the selling price to the downstream steam users and the steam purchase price paid to 熱電廠 was set at RMB51 per ton. The Management has set the unit cost after VAT at RMB119.94 per ton and the unit cost is assumed to remain constant.

8.4.5.3 Operating Expenses

As advised by the Management, the operating expenses include all the relevant items, which mainly represent staff cost, compensation of expropriation land, insurance repair, maintenance expense and rental expenses.

8.4.5.4 Depreciation Expenses

The depreciation expense for the fixed assets and the forecasted capital expenditure was estimated by straight line depreciation method with expected useful life of 20 years as advised by the Management.

8.4.5.5 Income Tax Expenses

The income tax expense was estimated by adopting the corporate tax rate in China of 25% as advised by the Management.

8.4.5.6 Working Capital

The forecast working capital balance was estimated with reference to the working capital turnover days of comparable companies and the Management's expectation. As advised by the Management, we adopted 30 days for both account receivables turnover days and account payables turnover days. For salary payables and taxes payable turnover, the historical turnover ratios are adopted.

8.4.5.7 Capital Expenditure

As advised by the Management, capital expenditure would be incurred for pipeline, machineries, office equipment repair while there is no capital expenditure for buildings in the forecast. As advised by the Management, the remaining balance of fixed assets in 2039 would be sold at 80% discount.

8.5 Marketability Discount

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. The value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. With reference to the 2020 edition of the FMV Restricted Stock Study Companion Guide, marketability discount of 15.80% was adopted in arriving at the market value of the Business Enterprise as at the Date of Valuation.

As advised by the Management, the Company has controlling power over the Business Enterprise. Therefore, the minority discount has not been applied in arriving at the fair value of 47.5% equity interest of the Business Enterprise.

8.6 Summary of Business Enterprise Valuation

To determine the market value of the Business Enterprise as at the Date of Valuation, we have considered the cash and debt balances, non-operating assets and liabilities of the Business Enterprise. Detailed calculation is shown as below:

	As at 31 March 2020 *RMB*
Total Present Value of the Business Enterprise	541,312,523
Add: Cash	6,497,180
Less: Debt	0
Add/(Less): Net Non-Operating Assets/(Liabilities)	(50,794,839)
100% Equity Interest of the Business Enterprise	**497,014,865**
Less: Marketability Discount of 15.80%	(78,528,349)
100% Market Value of the Business Enterprise	**418,486,516**

9. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- The valuation was primarily based on the financial projections and latest audited financial statements of the Business Enterprise as at 31 March 2020 as provided by the Management. The projections outlined in the financial information provided were assumed to be reasonable, reflecting market conditions and economic fundamentals, and will be materialized;
- The Business Enterprise will continue to operate as planned by the Management;
- As advised by the Management, the Business Enterprise has complied with the applicable laws and regulations in China in all material respects;
- As advised by the Management, the steam supply operation of the Business Enterprise will not be continued after 2039;
- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Business Enterprise operate or intend to operate would be officially obtained and renewable upon expiry;
- There will be sufficient supply of technical staff in the industry in which the Business Enterprise operate, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Business Enterprise operate or intend to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operate or intend to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise; and

- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing.

10. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors affecting the market value of the Business Enterprise. The factors considered included, but were not necessarily limited to, the following:

- Audited financial statements of the Business Enterprise for 3 months ended 31 March 2020, years ended 31 December 2019 and 31 December 2018;

- The Steam Supply Contract dated 30 October 2019 entered into between 淄博市淄熱電廠有限公司 and the Business Enterprise;

- The contracts in relation to the downstream industrial users;

- The financial projections as provided by the Management;

- Historical operational information of the Business Enterprise;

- General descriptions in relation to the Business Enterprise; and

- Economic outlook in China.

We have discussed the details with the Management on the information provided and assumed that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied on such information to a considerable extent in arriving at our opinion of value.

11. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation.
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To the best of our knowledge, all data set forth in this report are assumed to be reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on the historical and/or prospective information provided by the Management and other third parties to a considerable extent in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We assumed that the Management is competent and perform duties under the regulation. Also, ownership of the Business Enterprise was in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the market value of the Business Enterprise.

We have not investigated the title to or any legal liabilities of the Business Enterprise, and have assumed no responsibility for the title to the Business Enterprise appraised.

Our conclusion of the market value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and the Management in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

No change to any item in any part of this report shall be made by anyone except Roma Appraisals. We have no responsibility for any such unauthorized change. Neither all nor any part of this report shall be disseminated to the public without the written consent and approval of Roma Appraisals through any means of communication or referenced in any publications, including but not limited to advertising, public relations, news or sales media.

This report may not be reproduced, in whole or in part, and utilized by any third parties for any purpose, without the written consent and approval of Roma Appraisals.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report shall not pass to the Company until all professional fee has been paid in full.

12. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

We hereby confirm that we have neither present nor prospective interests in the Company, the Business Enterprise and their associated companies, or the values reported herein.

13. OPINION OF VALUE

Based on the investigation stated above and the valuation method employed, the market value of 47.5% equity interest in

The following Part A is extracted from a letter from Ernst & Young to the Company dated 11 September 2020 reproduced below for the purposes of incorporation in this circular.

A. Letter from the Reporting Accountants

REPORT ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF ZIBO QILU CHEMICAL INDUSTRY ZONE THERMAL CO., LTD.

To the Directors of China Shuifa Singyes Energy Holdings Limited,

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated September 11, 2020 prepared by Roma Appraisals Limited in respect of the 47.5% equity interest in Zibo Qilu Chemical Industry Zone Thermal Co., Ltd. (the "**Target Company**") as at base date of March 31, 2020 is based. The valuation is set out in the announcement of China Shuifa Singyes Energy Holdings Limited (the "**Company**") dated September 11, 2020 (the "**Announcement**") in connection with the proposed acquisition of 47.5% equity interest in the Target Company from Shandong Shuifa Clean Energy Technology Co., Ltd. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' responsibilities

The directors of the Company (the "**Directors**") are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The principal assumptions of the Forecast are set out in Appendix I of the Announcement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive Stocn.8(s)-ingcutelies5626TD Fqu3.4(b)

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors.

Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Company. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young
Certified Public Accountants
Hong Kong
September 11, 2020

B. Confirmation letter from the Board

11 September 2020

Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place, Central
Hong Kong

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF 47.5% EQUITY INTEREST IN ZIBO QILU CHEMICAL INDUSTRY ZONE THERMAL CO., LTD.

We refer to the announcement of the Company dated 11 September 2020 (the "**Announcement**"), of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

Reference is made to the valuation report (the "**Valuation Report**") dated 11 September 2020 prepared by Roma Appraisals Limited, an independent valuer (the "**Valuer**") engaged by the Company in relation to the acquisition of 47.5% equity interest in Zibo Qilu Chemical Industry Zone Thermal Co., Ltd.* (淄博齊魯化學工業區熱力有限公司) (the "**Target Company**"). The Valuation is based on the discounted future estimated cash flows of the Target Company, which is deemed to be a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have discussed with the Valuer and reviewed the assumptions based upon which the Valuation Report was prepared. We have also engaged Ernst & Young, the reporting accountant of the Company, to report on the arithmetical accuracy of the calculations of the discounted future cash flows used in the Valuation Report and considered the letter from Ernst & Young.

Based on the aforesaid, we confirm that the profit forecast comprised in the Valuation Report have been made after due and careful inquiry.

Yours faithfully,
For and on behalf of the board of Directors
China Shuifa Singyes Energy Holdings Limited
Zheng Qingtao
Chairman

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

Interest in the Company

Directors' and chief executive's interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors, proposed Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO); (ii) recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as adopted by the Company were as follows:

NAME	COMPANY/ NAME OF ASSOCIATED CORPORATION	CAPACITY	TYPE OF INTEREST	NUMBER OF SHARES	APPROXIMATE % OF SHAREHOLDING *(NOTE 1)*
Mr. Liu Hongwei	Company	Interest of a controlled corporation *(Note 2)*	Long Position	203,802,750	8.08%

Notes:

1. The percentage is calculated on the basis of 2,521,081,780 Shares in issue as at the Latest Practicable Date.

2. These 203,802,750 Shares are held by Strong Eagle Holdings Ltd. whose share capital is owned as to 53% by Mr. Liu Hongwei. Mr. Liu Hongwei is deemed to be interested in these Shares under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, proposed directors and chief executives of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company and any of its associated corporations which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO); (ii) recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders' and other persons' interests in the shares and underlying shares of the Company

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, other than the interests of the Directors, proposed directors and chief executives of the Company as disclosed above, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which need to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

NAME OF SHAREHOLDER	CAPACITY	LONG POSITION/ SHORT POSITION	NUMBER OF SHARES	APPROXIMATE % OF ISSUED SHARE CAPITAL OF THE COMPANY *(NOTE 2)*
Strong Eagle Holdings Ltd. *(Note 1)*	Beneficial owner	Long Position	203,802,750	8.08%
Beyond Steady Limited *(Note 3)*	Beneficial owner	Long Position	131,068,000	5.20%
Linewear Assets Limited *(Notes 3 and 4)*	Interest of controlled corporation	Long Position	131,068,000	5.20%
Huarong International Financial Holdings Limited *(Notes 4 and 5)*	Interest of controlled corporation	Long Position	131,068,000	5.20%
Camellia Pacific Investment Holding Limited *(Notes 5 and 6)*	Interest of controlled corporation	Long Position	131,068,000	5.20%
China Huarong International Holdings Limited *(Notes 6 and 7)*	Interest of controlled corporation	Long Position	131,068,000	5.20%
Huarong Real Estate Co., Ltd. (華融置業有限責 公司) *(Note 7 and 8)*	Interest of controlled corporation	Long Position	131,068,000	5.20%

NAME OF SHAREHOLDER	CAPACITY	LONG POSITION/ SHORT POSITION	NUMBER OF SHARES	APPROXIMATE % OF ISSUED SHARE CAPITAL OF THE COMPANY *(NOTE 2)*
China Huarong Asset Management Co., Ltd (中國華融資產管理股份有限公司) *(Note 8)*	Interest of controlled corporation	Long Position	131,068,000	5.20%
Water Development (HK) Holding Co., Limited *(Note 9)*	Beneficial owner	Long position	1,867,764,057	74.09%
Shuifa Energy Group Limited (水發能源集團有限公司) *(Note 9 and 10)*	Interest of controlled corporation	Long Position	1,867,764,057	74.09%
Shuifa Group Co., Ltd.* (水發集團有限公司) *(Note 10)*	Interest of controlled corporation	Long position	1,867,764,057	74.09%

Notes:

1. Strong Eagle Holdings Ltd. is owned by Mr. Liu Hongwei, Mr. Sun Jinli, Mr. Xie Wen, Mr. Xiong Shi and Mr. Zhuo Jianming, as to 53%, 15%, 13%, 10% and 9% respectively.

2. The percentage is calculated on the basis of 2,521,081,780 Shares in issue as at the Latest Practicable Date.

3. Beyond Steady Limited is the beneficial owner of 67,064,000 shares of the Company and has a security interest over 64,004,000 shares of the Company. Therefore, Beyond Steady Limited has an aggregate interest in 131,068,000 shares of the Company. Beyond Steady Limited is wholly owned by Linewear Assets Limited. Therefore, Linewear Assets Limited is deemed to be interested in 131,068,000 shares of the Company (5.20% of the issued share capital of the Company) under the SFO.

4. Linewear Assets Limited is wholly owned by Huarong International Financial Holdings Limited. Therefore, Huarong International Financial Holdings Limited is deemed to be interested in 131,068,000 shares of the Company (5.20% of the issued share capital of the Company) under the SFO.

5. Huarong International Financial Holdings Limited is owned by Camellia Pacific Investment Holding Limited as to 51% of its issued share capital. Therefore, Camellia Pacific Investment Holding Limited is deemed to be interested in 131,068,000 shares of the Company (5.20% of the issued share capital of the Company) under the SFO.

6. Camellia Pacific Investment Holding Limited is wholly owned by China Huarong International Holdings Limited. Therefore, China Huarong International Holdings Limited is deemed to be interested in 131,068,000 shares of the Company (5.20% of the issued share capital of the Company) under the SFO.

7. China Huarong International Holdings Limited is owned by Huarong Real Estate Co., Ltd. (華融置業有限責 公司) as to 88.1% of its issued share capital. Therefore, Huarong Real Estate Co., Ltd. (華融置業有限責 公司) ("**Huarong Real Estate**") is deemed to be interested in 131,068,000 shares of the Company (5.20% of the issued share capital of the Company) under the SFO.

8. Huarong Real Estate is wholly owned by China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司) ("**China Huarong Asset Management**"). Therefore, China Huarong Asset Management is deemed to be interested in 131,068,000 shares of the Company (5.20% of the issued share capital of the Company) under the SFO.

9. Water Development (HK) Holding Co., Limited is the beneficial owner of 1,687,008,585 shares of the Company and has a security interest over 180,755,472 shares of the Company. Therefore, Water Development (HK) Holding Co., Limited has an aggregate interest in 1,867,764,057 shares of the Company. Water Development (HK) Holding Co., Limited is directly wholly owned by Shuifa Energy. Therefore, Shuifa Energy is deemed to be interested in 1,867,764,057 shares of the Company (74.09% of the issued share capital of the Company) under the SFO. Each of Mr. Zheng Qingtao, the chairman of the Board, Mr. Chen Fushan, an executive Director and Mr. Wang Dongwei, an executive Director, is also a director of Shuifa Energy.

10. Shuifa Energy is directly wholly owned by Shuifa Group. Therefore, Shuifa Group is deemed to be interested in 1,867,764,057 shares of the Company (74.09% of the issued share capital of the Company) under the SFO. The ultimate controlling shareholder of Shuifa Group is the State-owned Assets Supervision and Administration Commission of the State Council of the Shandong Province of the PRC* (山東省國有資產監督管理委員會).

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has a service contract with any member of the Group as enlarged by the Acquisition which is not determinable by the enlarged Group within one year without payment of compensation, other than statutory compensation.

4. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

(i) save for the interests of Mr. Zheng Qingtao, Mr. Wang Dongwei, Mr. Chen Fushan and Mr. Zhang Jianyuan in the Acquisition as disclosed in the Letter from the Board, none of the other Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group as enlarged by the Acquisition; and

(ii) no Director or proposed director has a direct or indirect interest in any assets which have, since 31 December 2019, being the date to which the latest published audited accounts of the Company have been made up, been acquired or disposed of by or leased to any member of the Group as enlarged by the Acquisition, or are proposed to be acquired or disposed of by or leased to any member of the Group as enlarged by the Acquisition.

5. COMPETING INTERESTS

As at the Latest Practicable Date, the Directors confirm that they have no interest in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly, with the Group's business.

6. OTHER INTEREST OF THE SHAREHOLDERS

As at the Latest Practicable Date:

(i) Shuifa Energy (the sole shareholder of the Vendor) and its associate (Water Development (HK) Holding Co., Limited) holds 1,687,008,585 Shares, representing approximately 66.92% of the issued share capital of the Company and they will be required to abstain from voting on the relevant resolution at the SGM in accordance with the Listing Rules. Save as disclosed above, no Shareholder who is required to abstain from voting under the Listing Rules controls or is entitled to exercise control over the voting right in respect of its Shares;

(ii) there is no voting trust, other agreement, arrangement or understanding entered into by or binding upon any such Shareholder, or any obligation or entitlement of such Shareholder, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis; and

(iii) there is no discrepancy between such Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting right at the SGM.

7. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors confirm that there is no material adverse change in the financial or trading position of the Group since 31 December 2019, the date to which the latest published audited accounts of the Company have been made up.

8. EXPERT'S QUALIFICATION AND CONSENT

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

NAME	QUALIFICATION
Red Sun Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, appointed by the Company as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
Roma Appraisals Limited	Independent valuation firm
Ernst & Young	Certified Public Accountants, Hong Kong

The above experts have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letters/report (as the case may be) in the form and context in which such letters/report it is included and all references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, neither the Valuer, Red Sun Capital nor Ernst & Young:

(a) had any shareholding in any member of the Group as enlarged by the Acquisition or had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as enlarged by the Acquisition;

(b) had any interest, either direct or indirect, in any assets which have been, since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group as enlarged by the Acquisition.

To the best of knowledge, information and belief of the Board and having made all reasonable enquiries, each of the Valuer, Red Sun Capital and Ernst & Young is a third party independent of the Company and is not a connected person of the Company.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:00 p.m. (except Saturdays and public holidays) at the principal place of business of the Company in Hong Kong at Unit 3108, 31/F, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the SGM:

1. the Sale and Purchase Agreement;

2. the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

3. the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

4. the letter from Red Sun Capital containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Red Sun Capital" in this circular;

5. the written consents referred to in the paragraph headed "Expert's Qualification and Consent" in this appendix.

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Notes:

(a) In order to determine the right to attend the SGM, the register of members of the Company will be closed from 25 September 2020 to 30 September 2020, both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for the entitlement to attend and vote at the meeting, all transfer documents, accompanied by the relevant share certificates, must be duly completed and lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 24 September 2020.

(b) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more Shares may appoint more than one proxy to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company, but must attend the meeting in person to represent you.

(c) To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting (i.e. not later than 10:00 a.m. on 28 September 2020) or any adjourned meeting. The proxy form is published on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.singyessolar.com.

(d) Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(e) Where there are joint holders of any share, any one of such persons may vote at any meeting, either in person or by proxy, in respect of such Share as if he was solely entitled thereto; but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.

(f) Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the meeting shall be voted on by poll.

As at the date of this notice, the executive Directors are Mr. Zheng Qingtao (Chairman), Mr. Liu Hongwei (Vice Chairman), Mr. Wang Dongwei and Mr. Chen Fushan, the non-executive Directors are Ms. Wang Suhui and Mr. Zhang Jianyuan, and the independent non-executive Directors are Dr. Wang Ching, Mr. Yick Wing Fat, Simon and Dr. Tan Hongwei.