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XINYI SOLAR HOLDINGS LIMITED

信義光能控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock code: 00968)

(1) DISCLOSEABLE TRANSACTION

UPDATED INFORMATION ON PROPOSED SPIN-OFF AND PROPOSED TARGET DISPOSAL

(2) CONNECTED TRANSACTIONS WITH XINYI ENERGY FOLLOWING PROPOSED XYE LISTING

UPDATED INFORMATION ON SOLAR FARM AGREEMENT AND SOLAR FARM O&M AGREEMENT

(3) DEED OF NON-COMPETITION AND XYE POST-IPO SHARE OPTION SCHEME

The implementation of the Proposed Spin-Off and the Proposed XYE Listing are subject to, among other things, the Stock Exchange granting approval for the listing of, and permission to deal in, all XYE Shares on the Stock Exchange. There is no certainty as to whether, and if so when, the Proposed Spin-Off and the Proposed XYE Listing will take place. Accordingly, Shareholders, holders of other securities of the Company and potential investors in the Shares or other securities of the Company should exercise caution when dealing in or investing in the shares or other securities of the Company.

The Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, Deed of Non-Competition, and the adoption of the XYE Post-IPO Share Option Scheme by Xinyi Energy have been duly approved by the Independent Shareholders and the Shareholders by poll at the Previous Extraordinary General Meeting. The purpose of this document is to provide you with updated information on these matters. No additional approvals from the Independent Shareholders and the Shareholders would be required. See the section headed “Letter from the Board — Implications under the Listing Rules” in this document for the Directors’ confirmation that there are no material changes in the factual circumstances that support the Approved EGM Resolutions.

The “Letter from the Independent Board Committee” set forth on pages 38 to 39 of this document and the “Letter from the Independent Financial Adviser” set forth on pages 40 to 84 of this document are included for your reference only. You should refer to the Major Transaction Circular if you would like to have background information on the Proposed Spin-Off, Proposed Target Disposal, and the Proposed XYE Listing. The Major Transaction Circular can be downloaded from the websites of the Stock Exchange and the Company at www.xinyisolar.com.

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UPDATED EXPECTED TIMETABLE⁽¹⁾

Xinyi Energy issued the XYE Prospectus (December 2018) on 10 December 2018, but the Proposed XYE Listing was not proceeded as planned because of the then continuing stock market volatility, as announced by the Company on 14 December 2018.

As set forth in the announcement of the Company dated 15 March 2019, Xinyi Energy has submitted a renewed application for the Listing. The following timetable for the XYE Preferential Offering is based on the timetable for the Proposed XYE Listing provided by Xinyi Energy:

2019

XYE Assured Entitlement Record Date	Thursday, 9 May
First day for lodging application under the XYE Preferential Offering	Wednesday, 15 May
Last day for lodging application under the XYE Preferential Offering	Monday, 20 May
Dealing in the XYE Shares on the Stock Exchange expected to commence on	Tuesday, 28 May

The expected first day and the last day for lodging application under XYE Preferential Offering is indicative only and is subject to change. Shareholders should refer to the announcements issued by the Company from time to time on the latest timetable for the Proposed XYE Listing and the timetable and procedures for the Shareholders to participate in the XYE Preferential Offering.

Note:

(1) All times refer to Hong Kong time.

DEFINITIONS

In this document, unless the context otherwise requires, the terms below shall have the following meanings:

- “2019 Grid Parity Notice”** refers to 《國家發展改革委，國家能源局關於積極推進風電、光伏發電無補貼平價上網有關工作通知》 (Notice on actively promoting the work on subsidy-free grid-price parity for wind power and the solar power (2019)) jointly issued by the NDRC and the NEA on 7 January 2019;
- “Applicable Percentage Ratios”** means the percentage ratios stipulated in Rule 14.07 of the Listing Rules as applicable to the Proposed Spin-Off and the Proposed Target Disposal, on an aggregate basis, as described in the section headed “Letter from the Board — Implications under the Listing Rules” in this document;
- “Approved EGM Resolutions”** refers to the resolutions on the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, Deed of Non-Competition, and the adoption of the XYE Post-IPO Share Option Scheme by Xinyi Energy, which have been duly approved by the Independent Shareholders and the Shareholders by poll at the Previous Extraordinary General Meeting;
- “associate(s)”** has the meaning ascribed thereto in the Listing Rules;
- “Beneficial Shareholder(s)”** means any beneficial owner(s) of Share(s) whose Share(s) is/are registered, as shown in the register of members of the Company, in the name of a registered Shareholder on the XYE Assured Entitlement Record Date;
- “Binhai Solar Farm”** means Binhai Solar Farm (濱海光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Solar (Tianjin) and located in Tianjin, the PRC, with an approved capacity of 174 MW, which is one of the solar farm projects under the Initial Portfolio;
- “Board”** means the board of directors of the Company;
- “Business Day”** refers to a day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business;
- “BVI”** means British Virgin Islands;
- “Charm Dazzle”** means Charm Dazzle Limited (湛耀有限公司), a company incorporated in the BVI on 1 June 2015 and wholly-owned by Dr. LEE Yin Yee, B.B.S., one of the Controlling Shareholders;

DEFINITIONS

“close associates”	has the meaning ascribed to it under the Listing Rules;
“Company”	means Xinyi Solar Holdings Limited (信義光能控股有限公司), a company incorporated in the Cayman Islands with limited liability with all its issued shares listed on the Stock Exchange (stock code: 00968);
“connection-ready”	means solar farm projects that have substantially completed construction and are ready for connection with the electricity grid;
“controlled corporation(s)”	has the meaning ascribed to it under the SFO;
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and in the case of the Company, refers to Xinyi Glass and its subsidiaries, Dr. LEE Yin Yee, B.B.S., Mr. TUNG Ching Sai, Mr. TUNG Ching Bor, Mr. LI Man Yin, Mr. NG Ngan Ho, Mr. LI Ching Leung, Mr. LEE Sing Din, Mr. LI Ching Wai, Mr. SZE Nang Sze and their respective controlled corporations;
“Day Dimension”	means Day Dimension Investments Limited (日維投資有限公司), a company incorporated in the BVI on 2 June 2015 and wholly-owned by Mr. SZE Nang Sze, one of the Controlling Shareholders;
“Deed of Non-Competition”	means the deed of non-competition dated 5 December 2018 entered into between the Company, the XYE Executive Directors, and Xinyi Energy;
“Director(s)”	means the director(s) of the Company;
“Equity Investment”	means the investment made by the Equity Investors pursuant to the Equity Investment Agreement;
“Equity Investment Agreement”	means the equity investment agreement dated 18 October 2015 and entered into between the Company, Xinyi Energy, and the Equity Investors;
“Equity Investors”	means Charm Dazzle, Sharp Elite, Xu Feng, Precious Smart, Will Sail, Yuanyi, Heng Zhuo, Far High, and Day Dimension, and these are the controlled corporations of the individual Controlling Shareholders;

DEFINITIONS

“Fanchang Solar Farm”	means Fanchang Solar Farm (繁昌光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Solar (Fanchang) and located in Wuhu City, Anhui Province, the PRC with an approved capacity of 60 MW, which is one of the solar farm projects under the Initial Portfolio;
“Far High”	means Far High Investments Limited (遠高投資有限公司), a company incorporated in the BVI on 28 May 2015 and wholly-owned by Mr. NG Ngan Ho, one of the Controlling Shareholders;
“Feed-in-Tariff”	means the feed-in-tariff regime currently implemented by the PRC Government for the provision of subsidy, i.e. the tariff adjustment, to the solar farm operators in the PRC by way of tariff adjustment;
“Group”	means the Company and its subsidiaries (which include the Xinyi Energy Group) prior to completion of the Proposed Spin-Off;
“Heng Zhou”	means Heng Zhuo Limited (恒灼有限公司), a company incorporated in the BVI on 12 January 2015 and wholly-owned by Mr. LI Ching Leung, one of the Controlling Shareholders;
“HK\$”	means Hong Kong dollar, the lawful currency of Hong Kong;
“HKSCC”	means Hong Kong Securities Clearing Company Limited;
“Hong Kong”	means The Hong Kong Special Administrative Region of the PRC;
“Hong’an Solar Farm”	means Hong’an Solar Farm (紅安光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Hong’an and located in Hong’an County, Hubei Province, the PRC with an approved capacity of 100 MW, which is one of the solar farm projects under the Initial Portfolio;
“Huainan Solar Farm”	means Huainan Solar Farm (淮南光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Solar (Huainan) and located in Huainan City, Anhui Province, the PRC with an approved capacity of 20 MW, which is one of the solar farm projects under the Target Portfolio;

DEFINITIONS

“Independent Board Committee”	means the independent board committee of the Company comprising three independent non-executive Directors, namely Mr. CHENG Kwok Kin, Paul, Mr. LO Wan Sing, Vincent, and Mr. KAN E-ting, Martin, established for the sole purpose of advising the Shareholders on Approved EGM Resolutions;
“Independent Shareholders”	means Shareholders other than the Controlling Shareholders;
“Initial Portfolio”	means the business operations of the Xinyi Energy Group comprising nine utility-scale ground-mounted solar farm projects, namely Jinzhai Solar Farm, Sanshan Solar Farm, Nanping Solar Farm, Lixin Solar Farm, Binhai Solar Farm, Hong’an Solar Farm, Wuwei Solar Farm, Fanchang Solar Farm, and Shouxian Solar Farm, with an aggregate approved capacity of 954MW;
“Jinzhai Solar Farm”	means Jinzhai Solar Farm (金寨光伏电站), the utility-scale ground-mounted solar farm project operated by Xinyi Lu’an and located in Lu’an City, Anhui Province, the PRC with an approved capacity of 150 MW, which is one of the solar farm projects under the Initial Portfolio;
“Latest Practicable Date”	means 6 May 2019, being the latest practicable date prior to the printing of this document for ascertaining certain information for inclusion in this document;
“Listing Committee”	means the Listing Committee of the Stock Exchange;
“Listing Rules”	means The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Lixin Solar Farm”	means Lixin Solar Farm (利辛光伏电站), the utility-scale ground-mounted solar farm project operated by Xinyi Bozhou and located in Bozhou City, Anhui Province, the PRC, with an approved capacity of 140 MW, which is one of the solar farm projects under the Initial Portfolio;
“Major Transaction Circular”	means the circular issued and despatched by the Company on 2 November 2018 for the purpose of providing the Shareholders with information on the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, Deed of Non-Competition, and the adoption of the Post-IPO Share Option Scheme by Xinyi Energy, which was attached with the notice convening the Previous Extraordinary General Meeting;

DEFINITIONS

“Nanping Solar Farm”	means Nanping Solar Farm (南平光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Nanping and located in Nanping City, Fujian Province, the PRC with an approved capacity of 30 MW, which is one of the solar farm projects under the Initial Portfolio;
“NEA”	means 中華人民共和國國家能源局 (National Energy Administration of the PRC);
“New Wisdom”	means New Wisdom International Limited (新智國際有限公司), a company incorporated in Hong Kong with limited liability on 6 February 2015 and a Target Company;
“NDRC”	means 中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC);
“Non-Qualifying Shareholder(s)”	means Shareholder(s) whose name(s) appeared in the register of members of the Company on the XYE Assured Entitlement Record Date and whose address(es) as shown in such register is/are in any of the Specified Territories and any Shareholder(s) at that time who is/are otherwise known by the Company to be resident in any of the Specified Territories;
“Octal Capital” or “Independent Financial Adviser”	means Octal Capital Limited (八方金融有限公司), a licensed corporation to carry out Type 1 (dealing in securities) regulated activities and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee so that the Independent Board Committee can confirm its views on the Approved EGM Resolutions stated in this document;
“Perfect Alliance”	means Perfect Alliance Development Limited (滙卓發展有限公司), a company incorporated in Hong Kong with limited liability on 13 March 2015 and a Target Company;
“PRC”	means The People’s Republic of China which does not include, for the purpose of this document, Hong Kong, The Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“PRC Government”	means the government of PRC, including all governmental subdivisions (including provincial municipal and other regional or local government entities) and instrumentalist thereof any of them;

DEFINITIONS

“Precious Smart”	means Precious Smart Limited (睿寶有限公司), a company incorporated in the BVI on 28 May 2015 and wholly-owned by Mr. LEE Sing Din, one of the Controlling Shareholders;
“Previous Extraordinary General Meeting”	means the extraordinary general meeting of the Company held at 4:30 p.m. on 21 November 2018 for the purpose of approving the Approved EGM Resolutions;
“Previous XYE EGM”	means the extraordinary general meeting of Xinyi Energy held on or around Thursday, 22 November 2018 for the purpose of considering the Proposed XYE Global Offering, Proposed XYE Capitalisation Issue, and the adoption of XYE Post-IPO Share Option Scheme by Xinyi Energy, and other matters incidental thereto;
“Profit Noble”	means Profit Noble Development Limited (寶溢發展有限公司), a company incorporated in Hong Kong with limited liability on 6 February 2015 and a Target Company;
“Proposed Spin-Off”	means the proposed spin-off of Xinyi Energy by way of the Proposed XYE Global Offering;
“Proposed Target Disposal”	means the proposed disposal of the Target Companies to Xinyi Energy following the Spin-Off and the Proposed XYE Listing, pursuant to the Target Sale and Purchase Agreement;
“Proposed XYE Capitalisation Issue”	means the allotment and issue of new XYE Shares to be made on the capitalisation of certain sums standing to the credit of the share premium account of Xinyi Energy, details of which are set forth in the XYE Prospectus (May 2019);
“Proposed XYE Global Offering”	means the proposed offering of the XYE Offer Shares by Xinyi Energy to members of the public in Hong Kong for subscription and the proposed international offering to selected professional and institution investors and other investors (including the Qualifying Shareholder(s)) of the XYE Offer Shares;
“Proposed XYE Listing”	means the proposed listing of the XYE Shares on the Stock Exchange;
“Qualifying Shareholders”	means the Shareholders whose names appeared on the register of members of the Company on the XYE Assured Entitlement Record Date and would be entitled to the XYE Assured Entitlement (other than the Non-Qualifying Shareholders);

DEFINITIONS

“Remaining Group”	means the Company and its subsidiaries following completion of the Proposed Spin-Off and the Proposed XYE Listing, which will not include members of the Xinyi Energy Group;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Sanshan Solar Farm”	means Sanshan Solar Farm (三山光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Wuhu and located in Wuhu City, Anhui Province, the PRC with an approved capacity of 100 MW, which is one of the solar farm projects under the Initial Portfolio;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong);
“Shareholder(s)”	means the holder(s) of the Share(s);
“Share(s)”	means share(s) of HK\$0.10 each in the share capital of the Company;
“Sharp Elite”	means Sharp Elite Holdings Limited (銳傑控股有限公司), a company incorporated in the BVI on 29 May 2015 and wholly-owned by Mr. TUNG Ching Sai, one of the Controlling Shareholders;
“Shouxian Solar Farm”	means Shouxian Solar Farm (壽縣光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Solar (Shouxian) and located in Shouxian County, Anhui Province, the PRC with an approved capacity of 100 MW, which is one of the solar farm projects under the Initial Portfolio;
“Shouxian Solar Farm Two”	means Shouxian Solar Farm Two (壽縣二期光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Energy (Shouxian) and located in Shouxian County, Anhui Province, the PRC with an approved capacity of 200 MW, which is one of the solar farm projects under the Target Portfolio;
“Sky Cheer”	means Sky Cheer Investments Limited (悅天投資有限公司), a company incorporated in Hong Kong with limited liability on 8 January 2016 and a Target Company;
“Sky Falcon”	means Sky Falcon Development Limited (天騰發展有限公司), a company incorporated in Hong Kong with limited liability on 20 March 2015 and a Target Company;

DEFINITIONS

“Solar Farm Agreement”	means the solar farm agreement dated 5 December 2018 entered into between the Company and Xinyi Energy on the Solar Farm Call Option and the Solar Farm ROFR;
“Solar Farm Call Option”	means the call option granted by the Company to Xinyi Energy under the Solar Farm Agreement requiring the Remaining Group to sell to Xinyi Energy utility-scale ground-mounted solar farm projects developed or constructed by the Remaining Group upon grid connection and completion of construction;
“Solar Farm Development Business”	means the business of development or construction of utility-scale ground-mounted solar farm projects for sale by the Group and the Remaining Group following completion of the Proposed Spin-Off;
“Solar Farm Operation Business”	means the business of operating and managing solar farm projects currently conducted by the Xinyi Energy Group;
“Solar Farm O&M Agreement”	means the solar farm operation and management agreement dated 5 December 2018 entered into between the Company and Xinyi Technology (Wuhu) Limited on, inter alia, the provision of operation and management services by the Xinyi Energy Group to the Remaining Group for the connection-ready solar farm projects developed or constructed by the Remaining Group under the Solar Farm Development Business;
“Solar Farm ROFR”	means the right of first refusal granted by the Company to Xinyi Energy under the Solar Farm Agreement in respect of the acquisition of the solar farm projects that would otherwise be sold by the Remaining Group to Independent Third Parties upon the same terms and conditions;
“Solar Glass Business”	means the production and sales of solar glass products by the Group and the Remaining Group following completion of the Proposed Spin-Off;
“Specified Territories”	means in respect of the XYE Preferential Offering, such territory or territories which Xinyi Energy and its directors consider necessary or expedient to exclude from the XYE Preferential Offering on account of the legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in that jurisdiction;
“State Grid”	means the State Grid Corporation and the China Southern Power Grid;

DEFINITIONS

“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Subsidy Catalogue”	means 可再生能源電價附加資金補助目錄 (Renewable Energy Tariff Subsidy Catalogue);
“Suiping Solar Farm”	means Suiping Solar Farm (遂平光伏電站), the utility-scale ground-mounted solar farm operated by Xinyi Solar (Suiping) located in Suiping County, Henan Province, the PRC with an approved capacity of 110 MW, which is one of the solar farm projects under the Target Portfolio;
“Target Companies”	means the companies being the owners of the solar farm projects under the Target Portfolio;
“Target Portfolio”	means the business operations of the Target Companies comprising six utility-scale ground-mounted solar farm projects, namely Xiaochang Solar Farm One, Xiaochang Solar Farm Two, Suiping Solar Farm, Shouxian Solar Farm Two, Huainan Solar Farm, and Wuwei Solar Farm Two, with an aggregate approved capacity of 540 MW;
“Target Sale and Purchase Agreement”	means the sale and purchase agreement dated 5 December 2018 entered into between Xinyi Solar Farm (1) (as vendor) and Xinyi Energy (as purchaser) for the acquisition of all issued shares of the Hong Kong companies comprising the Target Companies (or their holding company for tax efficiency purpose) which hold the operating companies in the PRC and the solar farm projects under the Target Portfolio;
“Target Selling Price”	means the selling price for the Proposed Target Disposal in this document;
“Will Sail”	means Will Sail Limited (毅航有限公司), a company incorporated in the BVI on 21 May 2015 and wholly-owned by Mr. LI Man Yin, one of the Controlling Shareholders;
“Wuwei Solar Farm”	means Wuwei Solar Farm (無為光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Solar (Wuhu) and located in Wuhu City, Anhui Province, the PRC with an approved capacity of 100 MW, which is one of the solar farm projects under the Initial Portfolio;

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- “Wuwei Solar Farm Two”** means Wuwei Solar Farm Two (無為二期光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Solar (Wuwei) and located in Wuwei County, Anhui Province, the PRC with an approved capacity of 50 MW, which is one of the solar farm projects under the Target Portfolio;
- “Xiaochang Solar Farm One”** means Xiaochang Solar Farm One (孝昌一期光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Solar (Xiaochang) and located in Xiaochang County, Hubei Province, the PRC with an approved capacity of 130 MW, which is one of the solar farm projects under the Target Portfolio;
- “Xiaochang Solar Farm Two”** means Xiaochang Solar Farm Two (孝昌二期光伏電站), the utility-scale ground-mounted solar farm project operated by Xinyi Solar (Xiaochang) and located in Xiaochang County, Hubei Province, the PRC with an approved capacity of 30 MW, which is one of the solar farm projects under the Target Portfolio;
- “Xinyi Bozhou”** means 信義新能源(亳州)有限公司 (transliterated as Xinyi Renewable Energy (Bozhou) Limited), a company established in the PRC on 29 December 2014 and a wholly-owned subsidiary of Xinyi Energy;
- “Xinyi Energy”** means Xinyi Energy Holdings Limited 信義能源控股有限公司, a company incorporated in the British Virgin Islands as an exempted company with limited liability and is currently owned by the Company as to 75.0%;
- “Xinyi Energy Group”** means Xinyi Energy and its subsidiaries;
- “Xinyi Energy (Shouxian)”** means 信義新能源(壽縣)有限公司 (transliterated as Xinyi Renewable Energy (Shouxian) Limited), a company established in the PRC on 23 July 2015 and a wholly-owned subsidiary of the Company;
- “Xinyi Glass”** means Xinyi Glass Holdings Limited (信義玻璃控股有限公司), a company incorporated in the Cayman Islands with limited liability and its shares are listed on the Stock Exchange (stock code: 00868);
- “Xinyi Hong’an”** means 紅安信義新能源有限公司 (transliterated as Hong’an Xinyi Renewable Energy Limited), a company established in the PRC on 12 August 2014 and a wholly-owned subsidiary of Xinyi Energy;

DEFINITIONS

- “Xinyi Lu’an”** means 六安信義新能源管理有限公司 (transliterated as Lu’an Xinyi Renewable Energy Limited), a company established in the PRC on 24 March 2014 and a wholly-owned subsidiary of Xinyi Energy;
- “Xinyi Nanping”** means 南平信義新能源管理有限公司 (transliterated as Nanping Xinyi Renewable Energy Limited), a company established in the PRC on 17 June 2014 and a wholly-owned subsidiary of Xinyi Energy;
- “Xinyi Power”** means Xinyi Power (BVI) Limited (信義能量(BVI)有限公司), a company incorporated in the BVI with limited liability on 26 June 2015 and a wholly-owned subsidiary of the Company;
- “Xinyi Solar (Fanchang)”** means 信義光能(繁昌)有限公司 (transliterated as Xinyi Solar (Fanchang) Limited), a company established in the PRC on 12 May 2015 and a wholly-owned subsidiary of Xinyi Energy;
- “Xinyi Solar Farm (1)”** means Xinyi Solar Farm (Group 1) Limited (信義太陽能電站(一)有限公司), a company incorporated in the BVI with limited liability on 6 January 2017 and the vendor under the Target Sale and Purchase Agreement;
- “Xinyi Solar (Huainan)”** means 信義光能(淮南)有限公司 (transliterated as Xinyi Solar (Huainan) Limited), a company established in the PRC on 2 September 2015 and a wholly-owned subsidiary of the Company;
- “Xinyi Solar (Shouxian)”** means 信義光能(壽縣)有限公司 (transliterated as Xinyi Solar (Shouxian) Limited), a company established in the PRC on 21 April 2015 and a wholly-owned subsidiary of Xinyi Energy;
- “Xinyi Solar (Suiping)”** means 信義光能(遂平)有限公司 (transliterated as Xinyi Solar (Suiping) Limited), a company established in the PRC on 11 June 2015 and a wholly-owned subsidiary of Sky Falcon;
- “Xinyi Solar (Tianjin)”** means 信義光能(天津)有限公司 (transliterated as Xinyi Solar (Tianjin) Limited), a company established in the PRC on 24 November 2014 and a wholly-owned subsidiary of Xinyi Energy;

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“Xinyi Technology (Wuhu)”	means 信義能源技術(蕪湖)有限公司 (transliterated as Xinyi Energy Technology (Wuhu) Limited), a company established in the PRC on 25 April 2017 and a wholly-owned subsidiary of Xinyi Energy;
“Xinyi Solar (Wuwei)”	means 信義光能(無為)有限公司 (transliterated as Xinyi Solar (Wuwei) Limited), a company established in the PRC on 13 May 2016 and a wholly-owned subsidiary of Sky Cheer;
“Xinyi Solar (Xiaochang)”	means 信義光能(孝昌)有限公司 (transliterated as Xinyi Solar (Xiaochang) Limited), a company established in the PRC on 16 November 2015 and a wholly-owned subsidiary of New Wisdom;
“Xinyi Wuhu”	means 蕪湖信義新能源管理有限公司 (transliterated as Wuhu Xinyi Renewable Energy Limited), a company established in the PRC on 30 December 2013 and a wholly-owned subsidiary of Xinyi Energy;
“Xu Feng”	means Xu Feng Limited (旭楓有限公司), a company incorporated in the BVI on 16 February 2015 and wholly-owned by Mr. TUNG Ching Bor, one of the Controlling Shareholders;
“XYE Assured Entitlement”	means the assured entitlement of the Qualifying Shareholders that they may apply for the XYE Reserved Shares under the XYE Preferential Offering based on their respective shareholdings on the XYE Assured Entitlement Record Date in accordance with paragraph 3(f) of the Practice Note 15 of the Listing Rules;
“XYE Assured Entitlement Record Date”	means Thursday, 9 May 2019, being the record date for ascertaining XYE Assured Entitlement;
“XYE BLUE Application Form(s)”	means the application form(s) that have been sent to the Qualifying Shareholders to invite them to subscribe for the XYE Reserved Shares;
“XYE Board”	means the board of directors of Xinyi Energy;

DEFINITIONS

“XYE Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and, in the case of Xinyi Energy following the Proposed Spin-Off and the Proposed XYE Listing, refers to the Company, Xinyi Power, Charm Dazzle and Dr. LEE Yin Yee, B.B.S., Sharp Elite and Mr. TUNG Ching Sai, Xu Feng and Mr. TUNG Ching Bor, Precious Smart and Mr. LEE Sing Din, Will Sail and Mr. LI Man Yin, Yuanyi and Mr. LI Ching Wai, Heng Zhuo and Mr. LI Ching Leung, Far High and Mr. NG Ngan Ho, and Day Dimension and Mr. SZE Nang Sze;
“XYE Directors”	means the directors of Xinyi Energy;
“XYE Executive Directors”	means Mr. TUNG Ching Sai, Mr. TUNG Fong Ngai, Mr. LEE Yau Ching, and Ms. CHENG Shu E;
“XYE Listing Date”	means the date on which dealings in the XYE Shares first commence on the Stock Exchange, which is tentatively fixed on Tuesday, 28 May 2019;
“XYE Offer Shares”	means the 1,882,609,471 XYE Shares to be offered for subscription under the Proposed XYE Global Offering (including the XYE Over-allotment Option) as set forth in the XYE Prospectus (May 2019);
“XYE Over-allotment Option”	means the over-allotment option that may be granted by Xinyi Energy to the underwriters of the Proposed XYE Global Offering for sale of such number of additional XYE Offer Shares expected to be not more than 15% of the initial number of the XYE Offer Shares;
“XYE Post-IPO Share Option Scheme”	means the post-IPO share option scheme of Xinyi Energy conditionally adopted by Xinyi Energy on 22 November 2018;
“XYE Preferential Offering”	means the preferential offering to the Qualifying Shareholder(s) of the XYE Reserved Shares as the XYE Assured Entitlement on and subject to the terms and conditions to be included in the XYE Prospectus (May 2019) and in the XYE BLUE Application Form;
“XYE Prospectus (May 2019)”	means the prospectus issued by Xinyi Energy for the Proposed XYE Global Offering on 15 May 2019, being the date of this document;
“XYE Prospectus (December 2018)”	means the prospectus issued by Xinyi Energy on 10 December 2018 for the purpose of the Proposed XYE Global Offering;

DEFINITIONS

“XYE Reserved Shares”	means 804,734,584 XYE Offer Shares offered for subscription by the Qualifying Shareholders under the XYE Preferential Offering, representing approximately 42.75% of the total number of the XYE Offer Shares following completion of the Proposed XYE Global Offering and the Proposed XYE Listing;
“XYE Shares”	means the shares in issue or to be issued by Xinyi Energy with a nominal value of HK\$0.01 for each Xinyi Energy Share;
“XYE Track Record Period”	means the three years ended 31 December 2018;
“Yuanyi”	means Yuanyi Limited (源溢有限公司), a company incorporated in the BVI on 22 May 2015 and wholly-owned by Mr. LI Ching Wai, one of the Controlling Shareholders;
“MW”	means unit of energy (power), megawatt; and
“%”	means percentage.

LETTER FROM THE BOARD



XINYI SOLAR HOLDINGS LIMITED

信義光能控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock code: 00968)

Chairman:

Dr. LEE Yin Yee, B.B.S. *(Non-executive Director)*

Executive Directors:

Mr. TUNG Ching Sai *(Vice Chairman)*
Mr. LEE Yau Ching *(Chief Executive Officer)*
Mr. LI Man Yin
Mr. CHEN Xi

Non-executive Director:

Mr. LEE Shing Put

Independent Non-executive Directors:

Mr. CHENG Kwok Kin, Paul
Mr. LO Wan Sing, Vincent
Mr. KAN E-ting, Martin

Registered office:

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

*Headquarters and principal
place of business in China:*

Xinyi PV Glass Industrial Zone
2 Xinyi Road
Wuhu Economic and Technology
Development Zone
Wuhu City, Anhui Province
China

*Principal place of business in
Hong Kong:*

Unit 2109-2115
21/F, Rykadan Capital Tower
No. 135 Hoi Bun Road
Kwun Tong, Kowloon
Hong Kong

15 May 2019

To the Shareholders

Dear Sirs and Madams

(1) DISCLOSEABLE TRANSACTION

**UPDATED INFORMATION ON PROPOSED SPIN-OFF AND
PROPOSED TARGET DISPOSAL**

**(2) CONNECTED TRANSACTIONS WITH XINYI ENERGY
FOLLOWING PROPOSED XYE LISTING**

**UPDATED INFORMATION ON SOLAR FARM AGREEMENT AND
SOLAR FARM O&M AGREEMENT**

**(3) DEED OF NON-COMPETITION AND
XYE POST-IPO SHARE OPTION SCHEME**

LETTER FROM THE BOARD

INTRODUCTION

The Board refers to the Major Transaction Circular, in which detailed information on the Proposed Spin-Off and the Proposed XYE Listing has been disclosed. The Board also refers to the announcement dated 21 November 2018 on the poll results at the Previous Extraordinary General Meeting, at which the Approved EGM Resolutions have been duly passed and approved by the Independent Shareholders and the Shareholders. Xinyi Energy also issued the XYE Prospectus (December 2018) on 10 December 2018 for the Proposed XYE Global Offering and the Proposed XYE Listing. The Proposed XYE Global Offering was not proceeded according to the timetable set forth in the XYE Prospectus (December 2018) in view of the then continuing stock market volatility, as announced by the Company on 14 December 2018. The business of the Group remains unaffected by the decision of not proceeding with the Proposed XYE Global Offering.

On 15 March 2019, Xinyi Energy submitted to the Stock Exchange a renewed application for the Proposed XYE Listing. The application proof of the XYE Prospectus (May 2019) has been published on the website of the Stock Exchange since 19 March 2019.

Based on the Applicable Percentage Ratios, the Proposed Spin-Off, together with the Proposed Target Disposal, will constitute a discloseable transaction (as such term is defined under the Listing Rules) for the Company. As part of the arrangements for the Proposed Spin-Off and the Proposed XYE Listing, the Solar Farm Agreement and the Solar Farm O&M Agreement have been entered into for the purpose of establishing clear business delineation between the Remaining Group and the Xinyi Energy Group, which will carry on, inter alia, the Solar Farm Development Business and the Solar Farm Operation Business, respectively. The Deed of Non-Competition has also been entered into as part of the arrangement for the Proposed Spin-Off and the Proposed XYE Listing, and Xinyi Energy conditionally adopted the XYE Post-IPO Share Option Scheme in the extraordinary general meeting of Xinyi Energy on 22 November 2018.

UPDATED INFORMATION ON THE PROPOSED SPIN-OFF

On 13 February 2017, the Company submitted an application to the Stock Exchange for the Proposed Spin-Off pursuant to Practice Note 15 of the Listing Rules, and the Stock Exchange confirmed on 13 September 2017 that the Company might proceed with the Proposed Spin-Off. Taking into consideration the then capital market conditions and the possible valuation of the Xinyi Energy Group at that time, the Directors, however, considered that it would be beneficial to the Group to postpone the Proposed Spin-Off and the Proposed XYE Listing to 2018.

Xinyi Energy issued the XYE Prospectus (December 2018) on 10 December 2018 for the Proposed XYE Global Offering. The Proposed XYE Global Offering was not proceeded according to the timetable set forth in the XYE Prospectus (December 2018) with in view of the then continuing stock market volatility. On 15 March 2019, Xinyi Energy submitted the XYE Renewed Application for listing of the XYE Shares on the Stock Exchange. The application proof of the XYE Prospectus (May 2019) has been published on the website of the Stock Exchange.

LETTER FROM THE BOARD

The following sets forth the material updated information in the application proof the XYE Prospectus (May 2019):

- (a) change in the timetable for the Proposed XYE Listing;
- (b) updated the Track Record Period (as defined in the XYE Prospectus (May 2019)) to include the three years ended 31 December 2018 (as compared to the three years ended 31 December 2017 and the six months ended 30 June 2018 stated in the XYE Prospectus (December 2018)) and the corresponding updates to the financial and operational information of the Xinyi Energy Group and the Target Companies;
- (c) the total number of the XYE Offer Shares has been slightly increased from 1,880,077,547 XYE Shares to 1,882,609,471 XYE Shares as a result of the placing and top-up transaction completed by the Company on 12 March 2019 without any change in the basis of the XYE Assured Entitlement as announced by the Company on 29 November 2018;
- (d) the inclusion of the annual cap for the year ending 31 December 2021 (as compared to the three years ending 31 December 2020 stated in the Major Transaction Circular) for the continuing connected transactions for the Company under the Solar Farm O&M Agreement; and
- (e) the impact of the 2019 Grid Parity Notice.

Following completion of the Proposed Spin-Off and the Proposed XYE Listing, Xinyi Energy Group and its subsidiaries will continue to be subsidiaries of the Company. The operating results of the Xinyi Energy Group will therefore be consolidated into the financial statements of the Company.

In light of the foregoing, the Proposed Spin-Off, together with the Proposed Target Disposal, will not be subject to the approval of the Independent Shareholders in general meeting. The continuing connected transactions under the Solar Farm O&M Agreement will continue to be less than 5% under the Applicable Percentage Ratios and would be exempt from the circular and Shareholders' approval requirements.

Save as mentioned above, the arrangements for the Proposed Spin-Off and the Proposed XYE Listing would not involve any material change, alter the material terms and conditions of the Proposed Spin-Off (and the agreed arrangements between the Remaining Group and the Xinyi Energy Group following completion of the Proposed Spin-Off) or otherwise jeopardise the interest of the Independent Shareholders, as confirmed by the Directors.

The purpose of this document to provide you with updated information on matters on the Proposed Spin-Off. No additional approvals from the Independent Shareholders and the Shareholders are required.

The Directors would like to emphasise that there is no assurance that the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will take place or the relevant approval will be granted, or as to when it may take place or be granted. The implementation of the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied, including the approval of the Stock Exchange and the final decision of the Board and the XYE Board. There is no certainty as to whether, and if so when, the

LETTER FROM THE BOARD

Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will take place. The expected market capitalisation of Xinyi Energy stated in this document is an estimation of the Directors only with reference to the information currently available to them and has yet to be discussed with investors through the book-building process that would be conducted by Xinyi Energy as part of the preparation for the Proposed XYE Global Offering.

In any event, the decision on whether to proceed with the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will be at the discretion of the Directors and the XYE Directors. In making the decision, the Directors will take into consideration all factors and other considerations they consider relevant, including the prevailing capital market conditions, the likely valuation of Xinyi Energy that can be achieved and whether the Proposed XYE Global Offering will, in their view, maximise the benefits to the Company and the Shareholders as a whole. Accordingly, Shareholders and potential investors in the Shares and other securities of the Company should exercise caution when dealing in or investing in the Shares and are recommended to consult their professional advisers if they are in any doubt about their positions.

This document is not intended to, and does not, constitute an offer to sell or an invitation to or a solicitation of an offer to subscribe or buy any XYE Shares in connection with the Proposed XYE Global Offering or otherwise. Any such offer or solicitation will be made solely through a prospectus or offering circular in compliance with applicable laws and any decision to purchase or subscribe for the XYE Share in connection with the Proposed XYE Global Offering or otherwise should be made solely on the basis of the information contained in the XYE Prospectus (May 2019) or offering circular. Other than in Hong Kong, no action has been or will be taken in any jurisdiction that would permit a public offering of the XYE Offer Shares that may be offered in the Proposed XYE Global Offering in any jurisdiction where action for that purpose is required, including but not limited to the United States.

The expected market capitalisation of Xinyi Energy set forth in this section is an estimation of the Directors only based on the information currently available to them and has yet to be discussed with investors through the book-building process that would be conducted by Xinyi Energy as part of the preparation for the Proposed XYE Global Offering.

CONDITIONS PRECEDENT TO THE PROPOSED SPIN-OFF

The Proposed Spin-Off is conditional upon, among other things, the followings:

- (i) the Listing Committee granting the listing of and permission to deal in the XYE Shares in issue and any XYE Shares which may be issued pursuant to the Proposed Spin-Off;
- (ii) the agreement of the terms of the Proposed XYE Global Offering among the Company, Xinyi Energy and the underwriter(s) of the Proposed XYE Global Offering taking into consideration the prevailing capital market conditions at the time of launch of the Proposed XYE Global Offering; and
- (iii) the final decision of the Board and the XYE Board.

LETTER FROM THE BOARD

BUSINESS OF THE XINYI ENERGY GROUP

Overview

As of the Latest Practicable Date, all solar farm projects under the Initial Portfolio have been enlisted on the sixth and seventh batch of the Subsidy Catalogue. In addition, the Group has received tariff adjustment from the PRC Government in the aggregate amount of RMB1,004.3 million (equivalent to HK\$1,145.7 million) as of the Latest Practicable Date.

As of the Latest Practicable Date, Xinyi Energy is a non-wholly owned subsidiary of the Company holding 75.0% of the XYE Shares in issue. The remaining of 25.0% of the XYE Shares in issue are held by the Equity Investors. Pursuant to the Proposed Spin-Off, Xinyi Energy will issue new XYE Shares, which represent the XYE Offer Shares, under the Proposed XYE Global Offering. Upon completion of the Proposed XYE Global Offering and based on the current structure of the Proposed XYE Global Offering, Xinyi Energy will become a company listed on the Stock Exchange and will continue to be a non-wholly owned subsidiary of the Company expected to hold around 53.7% of the then XYE Shares in issue.

The Xinyi Energy Group currently owns and manages utility-scale ground-mounted solar farm projects, and sells electricity generated to the State Grid. As of 31 December, 2016, 2017, and 2018, the total approved capacity of the grid-connected utility-scale ground-mounted solar farm projects under the Initial Portfolio remained unchanged at 954 MW. Revenue from the solar farm business amounted to HK\$968.3 million, HK\$1,116.0 million, and HK\$1,200.6 million for the three years ended 31 December 2018, respectively.

Financial information of the Xinyi Energy Group

The table below is the profits before and after tax of the Xinyi Energy Group for the three years ended 31 December 2018 based on its audited consolidated financial statements:

	Year ended 31 December		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)
Profit before tax	659,067	734,809	792,656
Profit after tax	659,005	719,639	745,027

The net asset value of the Xinyi Energy Group attributable to owners of Xinyi Energy as of 31 December 2016, 2017, and 2018 were HK\$4,791.4 million, HK\$6,106.7 million, and HK\$6,405.7 million, respectively.

LETTER FROM THE BOARD

PROPOSED TARGET DISPOSAL

In addition to the deemed disposal of the equity interest in Xinyi Energy following completion of the Proposed Spin-Off and the Proposed XYE Listing by way of the Proposed XYE Global Offering, the Xinyi Energy Group will acquire, pursuant to the Target Sale and Purchase Agreement, from the Remaining Group, all issued shares of New Wisdom, Sky Falcon, Perfect Alliance, Profit Noble, and Sky Cheer (or their holding company for tax efficiency purpose) which hold, through their respective wholly-owned subsidiaries in the PRC, the utility-scale ground-mounted solar projects under the Target Portfolio.

Pursuant to the terms of the Target Sale and Purchase Agreement, the Xinyi Energy Group will pay to the Remaining Group out of the net proceeds from the Proposed XYE Global Offering the Target Selling Price. Such payment will be made by way of (a) an upfront payment of 50% upon completion of the Proposed Target Disposal which is expected to take place within one month from the XYE Listing Date and (b) the outstanding amount will be settled by the Xinyi Energy Group on the earlier of (i) the fourth anniversary of the XYE Listing Date, which is currently expected to be in 2023, and (ii) by instalments following the receipt of the tariff adjustment relating to the electricity generated by the solar farm projects under the Target Portfolio. On this basis, the outstanding amount will only be deferred to the respective time periods up to the delayed payment of the tariff adjustment is settled by the PRC Government. This payment arrangement of the outstanding amount is designed to match the expected receipt of the delayed tariff adjustment incurred by the Target Portfolio from the PRC Government. Hence, the proposed payment arrangement of the outstanding amount is not intended to provide any kind of unlimited support by the Remaining Group, or otherwise to shift the risk back to the Remaining Group following completion of the Target Acquisition, in the event of default in payment of the tariff adjustment by the PRC Government. The proposed payment arrangement, which has no fixed number of instalments and payment amounts, is also consistent with the industry practice of acquiring solar farm projects in the PRC subject to tariff adjustment under the Feed-in-Tariff regime. Following the Proposal Target Disposal, the Target Companies will be wholly-owned subsidiaries of Xinyi Energy, which will be a non-wholly owned subsidiary of the Company and the operating results of the Xinyi Energy Group (and the Target Companies) will be consolidated into the consolidated financial statements of the Remaining Group.

PROPOSED USE OF NET PROCEEDS BY XINYI ENERGY FROM THE PROPOSED XYE GLOBAL OFFERING

Based on the information currently available to the Directors and subject to the approval of the XYE Directors, Xinyi Energy will offer approximately 57.25% of new XYE Shares as the XYE Offer Shares (assuming that the XYE Over-allotment Option is not exercised). The XYE Offer Shares will be offered to members of the public in Hong Kong and institutional, professional, and other investors in selected jurisdictions pursuant to the Proposed XYE Global Offering. Under the Proposed XYE Global Offering, 42.75% of the XYE Offer Shares will be offered to the Qualifying Shareholders pursuant to the XYE Preferential Offering.

Based on the information currently available to the Directors, the expected market capitalisation of Xinyi Energy at the time of the Proposed XYE Listing would be in the range between HK\$12.5 billion and HK\$15.6 billion. This range of valuation is unrelated to the results of the Applicable Percentage Ratios, as members of the Xinyi Energy Group will continue to be non-wholly owned subsidiaries of the Company following completion of the Proposed Spin-Off and the Proposed XYE Listing by way of the Proposed XYE Global Offering.

LETTER FROM THE BOARD

In light of foregoing, the gross proceeds from the Proposed XYE Global Offering would be in the range between HK\$3.56 billion and HK\$4.42 billion, and the net proceeds that may be received by Xinyi Energy would be in the range between HK\$3.43 billion and HK\$4.29 billion. The Directors understand that Xinyi Energy currently intends to use the net proceeds from the Proposed XYE Global Offering for the following purposes:

- (i) approximately 90.0% of the net proceeds from the Proposed XYE Global Offering will be used for the payment of the Target Selling Price, of which an upfront payment of 50.0% will be settled upon completion of the Target Disposal and the remaining balance of 50.0% will be settled on the earlier of (a) the fourth anniversary of the XYE Listing Date and (b) by instalments following the receipt of the tariff adjustment receivables relating to the solar farm projects under Target Portfolio pursuant to the Target Sale and Purchase Agreement; and
- (ii) approximately 10.0% of the net proceeds from the Proposed XYE Global Offering will be used for the working capital and loan refinancing for the purpose of reducing the interest expense of Xinyi Energy.

The Directors also understand that if the net proceeds from the Proposed XYE Global Offering are either more or less than expected, Xinyi Energy currently intends to apply the net proceeds on a pro-rata basis.

The purpose of this document to provide you with updated information on matters on the Proposed Spin-Off. No additional approvals from the Independent Shareholders and the Shareholders are required.

The Directors would like to emphasise that there is no assurance that the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will take place or the relevant approval will be granted, or as to when it may take place or be granted. The implementation of the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied, including the approval of the Stock Exchange and the final decision of the Board and the XYE Board. There is no certainty as to whether, and if so when, the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will take place. The expected market capitalisation of Xinyi Energy stated in this document is an estimation of the Directors only with reference to the information currently available to them and has yet to be discussed with investors through the book-building process that would be conducted by Xinyi Energy as part of the preparation for the Proposed XYE Global Offering.

In any event, the decision on whether to proceed with the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will be at the discretion of the Directors and the XYE Directors. In making the decision, the Directors will take into consideration all factors and other considerations they consider relevant, including the prevailing capital market conditions, the likely valuation of Xinyi Energy that can be achieved and whether the Proposed XYE Global Offering will, in their view, maximise the benefits to the Company and the Shareholders as a whole. Accordingly, Shareholders and potential investors in the Shares and other securities of the Company should exercise caution when dealing in or investing in the Shares and are recommended to consult their professional advisers if they are in any doubt about their positions.

LETTER FROM THE BOARD

This document is not intended to, and does not, constitute an offer to sell or an invitation to or a solicitation of an offer to subscribe or buy any XYE Shares in connection with the Proposed XYE Global Offering or otherwise. Any such offer or solicitation will be made solely through a prospectus or offering circular in compliance with applicable laws and any decision to purchase or subscribe for the XYE Share in connection with the Proposed XYE Global Offering or otherwise should be made solely on the basis of the information contained in the XYE Prospectus (May 2019) or offering circular. Other than in Hong Kong, no action has been or will be taken in any jurisdiction that would permit a public offering of the XYE Offer Shares that may be offered in the Proposed XYE Global Offering in any jurisdiction where action for that purpose is required, including but not limited to the United States.

CONNECTED TRANSACTIONS WITH MEMBERS OF THE XINYI ENERGY GROUP FOLLOWING THE PROPOSED XYE LISTING

Solar Farm Agreement

The Solar Farm Agreement has been approved at the Previous Extraordinary General Meeting. Following the Proposed Spin-Off and the Proposed XYE Listing, the Directors confirm that the transactions between the Remaining Group and the Xinyi Energy Group will be conducted on an arm's length basis and upon normal commercial terms and governed by the written terms and conditions of the Solar Farm Agreement and the Solar Farm O&M Agreement as follows:

- (a) disposal of future solar farm projects that have completed construction and are grid-connected to Xinyi Energy pursuant to the Solar Farm Call Option and the Solar Farm ROFR granted under the Solar Farm Agreement; and
- (b) the solar farm operation and management services to be provided by the Xinyi Energy Group to the Remaining Group under the Solar Farm O&M Agreement for the connection ready solar farm projects held for sale pursuant to the Solar Farm Agreement.

The transactions contemplated under the Solar Farm Agreement are expected to constitute connected transactions for the Company.

The Directors further confirm that the services to be provided by the Xinyi Energy Group to the Remaining Group under the Solar Farm O&M Agreement will be determined with reference to the cost incurred by the Xinyi Energy Group and the then prevailing market rates of similar transactions. These transactions would constitute continuing connected transactions for the Company, and the aggregate amount of which is expected to be more than 0.1% but less than 5% under the Applicable Percentage Ratios to the Company, and would be exempt from the circular and shareholders' approval requirements. These transactions would be subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules.

The Directors consider that owning utility-scale ground-mounted solar farm projects *per se* by the Remaining Group would not constitute a competing business with Xinyi Energy, as these solar farm projects will not be operated and managed by the Remaining Group. All connection-ready utility-scale ground-mounted solar farm projects owned or developed by the Remaining Group will be operated and managed by the Xinyi Energy Group under the Solar Farm O&M Agreement. Xinyi Energy will receive service fee for the services rendered under the Solar Farm O&M Agreement.

LETTER FROM THE BOARD

Pursuant to the Solar Farm Agreement, if the Remaining Group is not able to dispose of the utility-scale ground-mounted solar farm projects owned by it within a four-year period, such solar farm projects would continue to be managed by the Xinyi Energy Group under the Solar Farm O&M Agreement until the disposal of such solar farm projects to the interested buyer. In the event that the Remaining Group is not able to dispose of any of such solar farm projects within the four-year period, the Remaining Group and Xinyi Energy shall appoint an independent advisor for appraisal of the then market value of such solar farm projects and the Remaining Group shall dispose of such solar farm projects through the appropriate methods (including, but without limitation to, public or private tender) to Independent Third Parties or the Xinyi Energy Group (including domestic companies in the PRC and foreign companies) within a period of six months.

Solar Farm O&M Agreement

The Solar Farm O&M Agreement has been approved at the Previous Extraordinary General Meeting. Pursuant to the Solar Farm O&M Agreement, Xinyi Energy will provide solar farm operation and management services to the Remaining Group, including operation and management of solar farm projects, training, technical and expert support services, to the connection-ready solar farm projects developed or constructed by the Company which will be held for sale subject to the terms of the Solar Farm Agreement. The Solar Farm O&M Agreement, effective from the XYE Listing Date, is valid for a term of three years ending on 31 December 2021 (as compared to the three years ended 31 December 2020 stated in the XYE Prospectus (May 2019)). The Solar Farm O&M Agreement will be entered into in a manner with such terms and conditions which are generally consistent with the industry practice and the established approach of similar contractual terms and conditions.

The services provided by Xinyi Energy to the Remaining Group under the Solar Farm O&M Agreement are on normal commercial terms, as compared with the services provided to Independent Third Parties, taking into consideration the service quality, price, work efficiency, and familiarity with the business needs and operational requirements as well as solar farm technical knowledge. Xinyi Energy Group did not provide such or similar services to Independent Third Parties. The service fees are agreed and based on actual costs that may be incurred in providing the relevant services and have been reached upon negotiations on an arm's length basis between the relevant parties with reference to the fees paid to Independent Third Parties for similar services in the ordinary and usual course of business.

The Directors expect that the amount of annual service fee paid by the Company during the term of the Solar Farm O&M Agreement would be more than 0.1% and not more than 5.0% of all applicable percentage ratios and as such, the transactions would be exempt from the circular and the Shareholders' approval requirements under the Listing Rules and would be subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules. The Solar Farm O&M Agreement is proposed to have an initial term of three years ending on 31 December 2021. If the Company ceases to be one of the controlling shareholders of Xinyi Energy during the term of the Solar Farm O&M Agreement, the Solar Farm O&M Agreement may be terminated by either party with six (6) months' prior written notice.

The Group has not entered into any transaction with Xinyi Energy for the operation and management of Solar farm before. As such no historical transaction figure is available.

LETTER FROM THE BOARD

Annual caps: The Directors set forth below the annual caps for the three years ending 31 December 2021 (as compared to the three years ending 31 December 2020 stated in the Major Transaction Circular). The maximum aggregate amount of annual service fee for each of the three years ending 31 December 2021 shall not exceed the annual caps as set forth below:

	Annual caps for		
	the year ending 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total fees under the Solar Farm O&M Agreement	7,200	12,000	15,000

Basis of annual caps: In determining the above annual caps, the Company have considered the following factors:

- (a) the pricing basis set forth in the Solar Farm O&M Agreement, which is in turn determined on an arm's length basis between the Company and Xinyi Energy on normal commercial terms taking into consideration (i) the prevailing market rates for the similar services provided known to the Company and Xinyi Energy (ii) the expected annual utilisation hours of the pipeline of the solar farm projects of the Remaining Group; and (iii) the anticipated increase in O&M services to be provided under the Solar Farm O&M Agreement in view of further expansion of the Solar Farm Development Business of the Remaining Group; and
- (b) the annual caps are based on RMB for the purpose of avoiding any impact that may be arising from exchange rate fluctuations between RMB and Hong Kong dollars.

If there is any significant change in the number of construction completed utility-scale ground-mounted solar farm projects constructed or developed by the Company during the term of the Solar Farm O&M Agreement that affects any of the annual caps set forth above, the Company will take further action to comply with the applicable requirements under the Listing Rules.

IMPLICATIONS OF THE 2019 GRID PARITY NOTICE

On 7 January, 2019, the NDRC and the NEA jointly published the 2019 Grid Parity Notice on the subsidy-free pricing arrangement for utility-scale renewable energy power projects constructed in the PRC in the future. Pursuant to 2019 Grid Parity Notice, NDRC and NEA encourage the construction of renewable energy projects, which will receive no subsidy and implement the benchmark price for coal power (the "**Equal Price Projects**"), and subject to certain conditions, the construction of pilot renewable energy projects, which will sell power at a price lower than the coal benchmark (the "**Low Price Projects**"). Further, the Equal Price Projects and the Low Price Projects will receive policy supports, including but without limitation to:

- (i) the Equal Price Projects and the Low Price Projects, which satisfy certain conditions and have been constructed under the guidance of the local provincial competent authorities, will not be subject to the restriction under national quota system in the PRC;

LETTER FROM THE BOARD

- (ii) relevant local government will give support on land utilization and land-related charges, and the relevant cost of the project site will be reduced;
- (iii) prioritised power generation and full-amount protective purchase are assured; and
- (iv) power grid enterprises at provincial level will be responsible for purchasing power generated from Equal Price Projects and Low Price Projects and entering into long-term fixed-rate power purchase contract (for no less than 20 years) with the relevant power generating companies according to the local benchmark prices for coal power when the project is approved.

In addition, there are various measures to be implemented under the 2019 Grid Parity Notice. The measures include: (a) grid-parity renewable energy projects to be developed are not to be limited by the national quota system in the PRC; (b) local provincial authorities will promote the use of grid-parity renewable projects in terms of land use and secure power transmission capacity for the grid-parity renewable energy projects; (c) local provincial authorities will offer local tariff subsidies to investors for grid-parity renewable energy projects for a specified period of time; (d) mandatory grid connection and full purchase of electricity generated from renewable energy projects, with top priority in grid connection and dispatch; and (e) purchase of all electricity generated from grid-parity renewable energy projects by provincial power grid companies with long-term power purchase agreements of not less than 20 years. The measures under (c), (d), and (e) above are expected to provide incentives for the construction of renewable energy projects subsequent to the implementation of the 2019 Grid Parity Notice even though the price for sale of electricity charged by these projects would achieve grid-parity or even lower than the local benchmark price of conventional coal-fired power.

With the implementation of the policy set forth in the 2019 Grid Parity Notice, the construction of new utility-scale ground-mounted solar farm projects in the future would not be subject to the national quota system in the PRC after satisfying certain conditions including the renewable energy rules and regulations on the provincial level and power delivery, transmission and capacity for consumption and purchase of electricity conditions. As there would be no tariff adjustment entitlement for the future solar farm projects to be constructed under the 2019 Grid Parity Notice, our Directors expect that there would be a substantial decrease in revenue generated from solar farm projects which are constructed subsequent to the implementation of the 2019 Grid Parity Notice. The NDRC and NEA encourage the construction of renewable energy projects which charge the same or a lower price as compared with the local benchmark price of conventional coal-fired power. It is expected that the implementation of the 2019 Grid Parity Notice would result in the following:

- (1) the price for sale of electricity generated by solar farm projects to be constructed subsequent to the implementation of the 2019 Grid Parity Notice would decrease to the extent they would be in parity with or lower than the local benchmark price of conventional coal-fired power;
- (2) the cashflows generated from such solar farm projects to be constructed subsequent to the implementation of the 2019 Grid Parity Notice would become more predictable as the revenue generated from the sale of electricity would be settled by the local subsidiaries of the State Grid pursuant to the relevant power purchase agreements; and
- (3) the valuation as well as the acquisition prices of such solar farm projects to be constructed subsequent to the implementation of the 2019 Grid Parity Notice are expected to decrease without the tariff adjustment entitlement.

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On 8 April 2019, the NEA commenced the consultation on a work plan for the implementation of the 2019 Grid Parity Notice 『國家能源局綜合司關於徵求《關於推進風電、光伏發電無補貼平價上網項目建設的工作方案(徵求意見稿)》意見的函』。The consultation paper proposes to identify new renewable energy projects that will achieve grid-parity under the 2019 Grid Parity Notice. In addition, the consultation paper also proposes a voluntary conversion of renewable energy projects with tariff adjustment into renewable energy projects with grid-parity. As of the Latest Practicable Date, the consultation was in progress and there was no conclusion made for the purpose. The consultation paper proposes that prior to the identification of the first batch of grid parity projects in 2019, the regions will not organize the competition allocation (競爭配置) of wind power and photovoltaic power generation projects that require state subsidies.

The 2019 Grid Parity Notice has no impact on the amount of entitlement to the tariff adjustment currently enjoyed by the utility-scale ground-mounted solar farm projects under the Initial Portfolio as well as the Target Portfolio and all pipeline utility-scale ground-mounted solar farm projects (other than Chaohu Jindao Solar Farm) under development and construction by us as of the Latest Practicable Date.

As of the Latest Practicable Date, except for one of the pipeline solar farm projects of the Remaining Group, i.e. Jindao Solar Farm, all solar farm projects under the Initial Portfolio, the Target Portfolio and the pipeline utility-scale ground-mounted solar farm projects under development and construction by the Remaining Group are constructed under the national quota system in the PRC. Chaohu Jindao Solar Farm Project is not constructed under the national quota system of the PRC and is not entitled to tariff adjustment in respect of the electricity generated by this solar farm project. The price for sale of electricity charged by Chaohu Jindao Solar Farm Project will be equivalent to the local benchmark price of conventional coal-fired power and is therefore a grid-parity solar farm project. Chaohu Jindao Solar Farm Project is constructed prior to the implementation of the 2019 Grid Parity Notice. In light of the foregoing, our Directors consider that the consultation has no imminent impact on our business operations.

DEED OF NON-COMPETITION

Approved in the Previous Extraordinary General Meeting, the Deed of Non-Competition was entered into on 5 December 2018 between the Company, the XYE Executive Directors and Xinyi Energy. Pursuant to the Deed of Non-Competition, each of the XYE Controlling Shareholders and XYE Executive Directors (collectively, the “**Covenantors**”) will jointly and severally, irrevocably and unconditionally, undertaken with Xinyi Energy (for itself and for the benefit of its subsidiaries) that with effect from the XYE Listing Date and for so long as the XYE Shares remain so listed on the Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of the XYE Shares in issue or otherwise regarded as controlling shareholders (as defined in the Listing Rules) of Xinyi Energy, the Covenantors shall not, and shall procure that none of their associates (except any members of the Xinyi Energy Group) or affiliates shall:

- (a) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the business activity conducted from time to time by any member of Xinyi Energy Group

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or be in competition with any member of Xinyi Energy Group in any business activities which any member of Xinyi Energy Group may undertake in the future save for (i) holding of solar farm projects which are subject to the Solar Farm Call Option or the Solar Farm ROFR (the “**Relevant Solar Farm Projects**”) for sale and (ii) the holding of not more than five per cent shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; and

- (b) take any direct or indirect action which constitutes an interference with or a disruption to the business activities of any member of the Xinyi Energy Group including, but not limited to, solicitation of the customers, suppliers or personnel of any member of the Xinyi Energy Group.

In addition, each of the Covenantors has jointly and severally, irrevocably and unconditionally, undertaken to Xinyi Energy that:

- (a) if any new business opportunity relating to any of the products and/or services of the Xinyi Energy Group in the PRC or otherwise except for holding of the Relevant Solar Farm Projects for sale (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of the Group), it shall direct or procure the relevant associate to direct such Business Opportunity to the Xinyi Energy Group with such required information to enable Xinyi Energy Group to evaluate the merits of the Business Opportunity.
- (b) in connection with the Business Opportunity, the relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to the Xinyi Energy Group to enable it to secure the Business Opportunity.

For the avoidance of doubt, none of the Covenantors and their respective associates (other than members of the Xinyi Energy Group) shall not pursue the Business Opportunity unless Xinyi Energy has decided not to pursue the Business Opportunity because of commercial reasons. The decision shall be approved by the independent non-executive directors of Xinyi Energy.

XYE POST-IPO SHARE OPTION SCHEME

Following the Previous Extraordinary General Meeting, Xinyi Energy adopted its own post-IPO share option scheme on 22 November 2018. The purpose of the XYE Post-IPO Share Option Scheme is to allow Xinyi Energy to grant options to selected participants as incentives or rewards for their contribution to the Xinyi Energy Group. The adoption of the XYE Post-IPO Share Option Scheme in accordance with Chapter 17 of the Listing Rules was approved by the Shareholders at the Previous Extraordinary General Meeting. The XYE Post-IPO Share Option Scheme will thus allow Xinyi Energy to reward its directors and employees and the directors and employees of its subsidiaries and other selected participants for their contributions to the Xinyi Energy Group and to motivate them to continue to contribute to the development of the Xinyi Energy Group.

The XYE Post-IPO Share Option Scheme constitutes a share option scheme governed by Chapter 17 of the Listing Rules. As the XYE Directors are entitled to determine any performance targets and minimum holding period which apply to an option on a case by case basis, and fix the subscription price, it is expected that grantees of an option will have an incentive to contribute to the development of the Xinyi Energy Group. Xinyi Energy does not at present intend to appoint a trustee to the XYE

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Post-IPO Share Option Scheme. None of the director of Xinyi Energy is a trustee of the XYE Post-IPO Share Option Scheme nor has a direct or indirect interest in the trustees of the XYE Post-IPO Share Option Scheme (if any). Pursuant to Note (1) of Rule 17.03(3) of the Listing Rules, the total number of securities which may be issued upon exercise of all options to be granted under a share option scheme and any other schemes must not in aggregate exceed 10% (the “**General Scheme Limit**”) of the relevant class of securities of the listed issuer (or the subsidiary) in issue as of the date of approval of the scheme.

Taking into consideration the fact that (i) the XYE Post-IPO Share Option Scheme will not become effective until (and unless there is) the Proposed XYE Listing and the XYE Post-IPO Share Option Scheme will lapse if the Proposed Spin-Off and Proposed XYE Listing does not take place; (ii) the significant difference of the number of issued shares of Xinyi Energy as of the date of the Previous Extraordinary General Meeting and that upon the date of the Proposed XYE Listing, it is impracticable to set the General Scheme Limit of the XYE Post-IPO Share Option Scheme with reference to the number of XYE Shares as of the date of the Previous Extraordinary General Meeting. The Company has therefore applied for and the Stock Exchange has granted a waiver from strict compliance with the requirement under Note (1) to Rule 17.03(3) of the Listing Rules that the General Scheme Limit be based on the total number of XYE Shares in issue at the time when dealings in the XYE Shares first commence on the Stock Exchange.

PROPOSED USE OF THE PROCEEDS RECEIVED FROM THE PROPOSED TARGET DISPOSAL AND THE SOLAR FARM AGREEMENT

The expected market capitalisation of Xinyi Energy is an estimation of the Directors only based on the information currently available to them and has yet to be discussed with investors through the book-building process that would be conducted by Xinyi Energy as part of the preparation for the Proposed XYE Global Offering. The expected market capitalisation of Xinyi Energy at the time of the Proposed XYE Listing would be in the range between HK\$12.5 billion and HK\$15.6 billion. This range of valuation is unrelated to the results of the Applicable Percentage Ratios, as members of the Xinyi Energy Group will continue to be non-wholly owned subsidiaries of the Company following completion of the Proposed Spin-Off and the Proposed XYE Listing by way of the Proposed XYE Global Offering.

Assuming that the market capitalisation of the Xinyi Energy Group would be in the range between HK\$12.5 billion and HK\$15.6 billion and based on the financial information of the Target Companies as of 31 December 2018, the Company would receive the Target Selling Price of approximately RMB3.2 billion (equivalent to approximately HK\$3.7 billion at the exchange rate of RMB1.00 to HK\$1.1648, being the exchange rate as of Latest Practicable Date) pursuant to the Target Sale and Purchase Agreement. The Target Selling Price will not be fully received by the Company shortly after completion of the Proposed Spin-Off and the Proposed XYE Listing by way of the Proposed XYE Global Offering. Pursuant to the terms of the Target Sale and Purchase Agreement, the Xinyi Energy Group will pay to the Remaining Group out of the net proceeds from the Proposed XYE Global Offering the Target Selling Price by way of (a) an upfront payment of 50% upon completion of the Proposed Target Disposal which is expected to take place within one month from the XYE Listing Date and (b) the outstanding amount will be settled by the Xinyi Energy Group on the earlier of (i) the fourth anniversary of the XYE Listing Date, which is currently expected to be in 2023, and (ii) by instalments following the receipt of the tariff adjustment relating to the electricity generated by the solar farm projects under the Target Portfolio. The Directors have agreed that the outstanding amount can be settled at the later stage. Hence, the proposed payment arrangement is not intended to provide any kind of unlimited support by the Remaining Group, or otherwise to shift the risk back to

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the Remaining Group following completion of the Target Acquisition, in the event of default in payment of the tariff adjustment by the PRC Government. The proposed payment arrangement, which has no fixed number of instalments and payment amounts, is also consistent with the industry practice of acquiring solar farm projects in the PRC subject to tariff adjustment under the Feed-in-Tariff regime.

The Company plans to use the proceeds from the Proposed Spin-Off as follows:

	<u>Approximate percentage</u>
Providing partial financing for the construction of new production capacity for the Solar Glass Business	45
Providing partial financing for the construction of utility-scale ground-mounted solar farm projects (including the pipeline solar farm projects) under the Solar Farm Development Business	45
General working capital.	<u>10</u>
Total	<u><u>100</u></u>

The Company will use its internally generated financial resources or external bank financing to support the additional financing required for the above purposes. Currently, the Directors have no intention to dispose of any of its existing business activities of the Group except for the disposal of solar farm projects in accordance with the Solar Farm Agreement.

Pursuant to the Solar Farm Agreement, the Remaining Group will dispose of construction completed and grid-connected utility-scale ground-mounted solar farm projects to the Xinyi Energy Group pursuant to the Solar Farm Call Option or the Solar Farm ROFR. The Company will receive the proceeds pursuant to the Solar Farm Agreement. Subject to the business and financial condition of the Group from time to time, the Company intends to use the proceeds primarily for the construction of utility-scale ground-mounted solar farm projects and solar glass production lines.

The purpose of this document to provide you with updated information on matters on the Proposed Spin-Off. No additional approvals from the Independent Shareholders and the Shareholders are required.

The Directors would like to emphasise that there is no assurance that the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will take place or the relevant approval will be granted, or as to when it may take place or be granted. The implementation of the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied, including the approval of the Stock Exchange and the final decision of the Board and the XYE Board. There is no certainty as to whether, and if so when, the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will take

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place. The expected market capitalisation of Xinyi Energy stated in this document is an estimation of the Directors only with reference to the information currently available to them and has yet to be discussed with investors through the book-building process that would be conducted by Xinyi Energy as part of the preparation for the Proposed XYE Global Offering.

In any event, the decision on whether to proceed with the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will be at the discretion of the Directors and the XYE Directors. In making the decision, the Directors will take into consideration all factors and other considerations they consider relevant, including the prevailing capital market conditions, the likely valuation of Xinyi Energy that can be achieved and whether the Proposed XYE Global Offering will, in their view, maximise the benefits to the Company and the Shareholders as a whole. Accordingly, Shareholders and potential investors in the Shares and other securities of the Company should exercise caution when dealing in or investing in the Shares and are recommended to consult their professional advisers if they are in any doubt about their positions.

This document is not intended to, and does not, constitute an offer to sell or an invitation to or a solicitation of an offer to subscribe or buy any XYE Shares in connection with the Proposed XYE Global Offering or otherwise. Any such offer or solicitation will be made solely through a prospectus or offering circular in compliance with applicable laws and any decision to purchase or subscribe for the XYE Share in connection with the Proposed XYE Global Offering or otherwise should be made solely on the basis of the information contained in the XYE Prospectus (May 2019) or offering circular. Other than in Hong Kong, no action has been or will be taken in any jurisdiction that would permit a public offering of the XYE Offer Shares that may be offered in the Proposed XYE Global Offering in any jurisdiction where action for that purpose is required, including but not limited to the United States.

IMPLICATIONS UNDER THE LISTING RULES

Approved EGM Resolutions

The Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, Deed of Non-Competition, and the adoption of the Pre-IPO Share Option have been duly approved by the Independent Shareholders and the Shareholders at the Previous Extraordinary General Meeting. The Directors confirm, with the advice from the Cayman Islands' legal advisers, that the Approved EGM Resolutions are valid in accordance with the articles of association of the Company. Although the circumstances and the timetable for the Proposed Spin-Off and the Proposed XYE Listing have changed, the Directors are of the view that such changes are not fundamental and have not changed the material factual circumstances that support the Approved EGM Resolutions. Hence, the Directors (including the independent non-executive Directors) confirm that no additional extraordinary general meeting would need to be convened for the purpose of relaunching the Proposed XYE Listing and the Proposed XYE Global Offering.

Based on the Applicable Percentage Ratios, the Proposed Spin-Off, together with the Proposed Target Disposal, will constitute a discloseable transaction (as such term is defined under the Listing Rules) for the Company and is not required to be approved by Shareholders in general meeting.

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Continuing connected transactions under the Solar Farm O&M Agreement

The Solar Farm O&M Agreement is proposed to have an initial term of three years. If the Company ceases to be one of the controlling shareholders of Xinyi Energy during the term of the Solar Farm O&M Agreement, the Solar Farm O&M Agreement may be terminated by either party with six (6) months' prior written notice.

In addition, the Directors confirm that the services to be provided by the Xinyi Energy Group to the Remaining Group under the Solar Farm O&M Agreement will be determined with reference to the cost incurred by the Xinyi Energy Group and the then prevailing market rates of similar transactions. These transactions would constitute continuing connected transactions for the Company, and the aggregate amount of which is expected to be more than 0.1% but less than 5% under the Applicable Percentage Ratios to the Company, and would be exempt from the circular and shareholders' approval requirements. These transactions would be subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules.

The Group has not entered into any transaction with Xinyi Energy for the operation and management of Solar farm before. As such no historical transaction figure is available.

The Directors set forth below the annual caps for the three years ending 31 December 2021 (as compared to the three years ending 31 December 2020 in the Major Transaction Circular). The maximum aggregate amount of annual service fee for each of the three years ending 31 December 2021 shall not exceed the annual caps as set forth below:

	Annual caps for the year ending 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total fees under the Solar Farm O&M Agreement	7,200	12,000	15,000

If there is any significant change in the number of construction completed utility-scale ground-mounted solar farm projects constructed or developed by the Company during the term of the Solar Farm O&M Agreement that affects any of the annual caps set forth above, the Company will comply with the applicable requirements under the Listing Rules.

In addition, pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors will review the transactions under the Solar Farm O&M Agreement annually and confirm in the annual report of the Company that those transactions:

- (1) are conducted in the ordinary and usual course of business of the Company;
- (2) are conducted on normal commercial terms or better; and
- (3) are conducted according to the terms and conditions of the Solar Farm O&M Agreement that are fair and reasonable and in the interests of the Shareholders as a whole.

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Pursuant to Rule 14A.56 of the Listing Rules, the auditors of the Company will report on the transactions under the Solar Farm O&M Agreement every year. The auditors will provide a letter to the Board confirming that nothing has come to their attention that causes them to believe that the transactions under the Solar Farm O&M Agreement:

- (1) have not been approved by the Board;
- (2) are not entered into, in all material respects, in accordance with the Solar Farm O&M Agreement; and
- (3) have exceeded the annual cap.

XYE ASSURED ENTITLEMENT

This document is not intended to, and does not, constitute an offer to sell or an invitation to or a solicitation of an offer to subscribe or buy any XYE Shares in connection with the Proposed XYE Global Offering or otherwise. Any such offer or solicitation will be made solely through a prospectus or offering circular in compliance with applicable laws and any decision to purchase or subscribe for the XYE Share in connection with the Proposed XYE Global Offering or otherwise should be made solely on the basis of the information contained in the XYE Prospectus (May 2019) or offering circular. Other than in Hong Kong, no action has been or will be taken in any jurisdiction that would permit a public offering of the XYE Offer Shares that may be offered in the Proposed XYE Global Offering in any jurisdiction where action for that purpose is required, including but not limited to the United States.

In order to allow the Shareholders to participate in the Proposed XYE Global Offering on a preferential basis as to allocation only, subject to the Stock Exchange granting conditional approval for the listing of, and permission to deal in, the XYE Shares on the Stock Exchange and the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing becoming unconditional, Qualifying Shareholders will be invited to apply for the XYE Reserved Shares which represent 42.75% of the total number of the XYE Offer Shares (assuming that the Over-allotment Option (as defined in the XYE Prospectus (May 2019)) is not exercised). The XYE Reserved Shares will not be subject to reallocation between the different tranches under the Proposed XYE Global Offering.

The Directors consider that the proportion of the XYE Offer Shares which would be made available as XYE Reserved Shares for subscription by the Qualifying Shareholders is a meaningful proportion and is generally more than other spin-off cases. On this basis, the interest of the Shareholders under paragraph 3(f) of Practice Note 15 of the Listing Rules has been considered and the percentage of the XYE Reserved Shares is appropriate.

XYE Assured Entitlement is not transferable and there will be no trading in nil-paid entitlement on the Stock Exchange.

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Preliminary basis of allocation for application for XYE Reserved Shares

As set forth in the announcement of the Company dated 29 November 2018, the basis of the XYE Assured Entitlement, if and when made, would remain unchanged. Qualifying Shareholders as of the XYE Assured Entitlement Record Date holding every integral multiple of 10 Shares would be entitled to subscribe for one (1) XYE Reserved Share. If there is any change in this entitlement, the Company will issue an announcement in due course.

Qualifying Shareholders holding at least 10 Shares as of the XYE Assured Entitlement Record Date may apply for such number of XYE Reserved Shares which is greater than, less than or equal to their XYE Assured Entitlement. Qualifying Shareholders holding less than 10 Shares as of the XYE Assured Entitlement Record Date would not have any XYE Assured Entitlement, but it may apply for the excess XYE Reserved Shares under the XYE Preferential Offering, subject to the terms and conditions of the XYE **BLUE** Application Form. A valid application for a number of XYE Reserved Shares which is less than or equal to a Qualifying Shareholder's XYE Assured Entitlement under the XYE Preferential Offering will be accepted in full, subject to the terms and conditions set forth in the XYE BLUE Application Form and assuming that the conditions of the XYE Preferential Offering are satisfied.

Qualifying Shareholders should note that the XYE Reserved Shares allocated to them may not represent a number of a full board lot of 2,000 XYE Shares. Further, the XYE Reserved Shares allocated to the Qualifying Shareholders will be rounded down to the closest whole number if required, and dealings in odd lots of the XYE Shares may be at a price below the prevailing market price for full board lots.

Where a Qualifying Shareholder applies for a number of XYE Reserved Shares which is greater than the Qualifying Shareholder's XYE Assured Entitlement under the XYE Preferential Offering, the relevant XYE Assured Entitlement will be satisfied in full, but the excess portion of such application will only be met to the extent that there are sufficient Available XYE Reserved Shares (as defined below) resulting from other Qualifying Shareholders declining to take up some or all of their XYE Assured Entitlement by way of allocation by the Joint Global Coordinators on a fair a reasonable basis, subject to the following conditions:

- (a) no preferential allocation of the XYE Reserved Shares will be given to the Directors and/or their close associates and the Controlling Shareholders, who are Qualifying Shareholders;
- (b) the Directors and/or their close associates and the Controlling Shareholders will not apply for such number of XYE Reserved Shares which is more than the total number of the XYE Reserved Shares;
- (c) save as the XYE Preferential Offering, the Directors and/or their close associates and the Controlling Shareholders will not participate or indicate any interest in the Proposed XYE Global Offering;

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- (d) the allocation of the XYE Reserved Shares will be on a pro rata basis amongst all Qualifying Shareholders (who have applied for XYE Reserved Shares) and no preferential treatment will be given to the Directors and/or their close associates and the Controlling Shareholders (who have applied for the XYE Reserved Shares and in their capacity as Qualifying Shareholders) as compared to other Qualifying Shareholders; and
- (e) the minimum public float requirement under Rule 8.08(1) of the Listing Rules will be complied with immediately after completion of the Proposal XYE Global Offering subject to any waiver that may be granted to Xinyi Energy by the Stock Exchange.

Beneficial Shareholders (not being Non-Qualifying Shareholders) whose Shares are held by a nominee company should note that Xinyi Energy will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, such Beneficial Shareholders whose Shares are held by a nominee company should note that the arrangement under paragraph (d) above will not apply to them individually.

Qualifying Shareholders and Non-Qualifying Shareholders

Only Shareholders whose names appeared on the register of members of the Company on the XYE Assured Entitlement Record Date, excluding the Non-Qualifying Shareholders, are entitled to subscribe for the XYE Reserved Shares.

Non-Qualifying Shareholders are those Shareholders with registered addresses in, or who are otherwise known by the Company to be residents of, any of the Specified Territories. Accordingly, for the purposes of the XYE Preferential Offering, the Non-Qualifying Shareholders are:

- (a) Shareholders whose names appeared in the register of members of the Company on the XYE Assured Entitlement Record Date and whose addresses as shown in such register are in any of the Specified Territories; and
- (b) Shareholders or Beneficial Shareholders whose names appeared in the register of members of the Company on the XYE Assured Entitlement Record Date who are otherwise known by the Company to be resident in any of the Specified Territories.

As of the Latest Practicable Date, the Company has been advised by the PRC legal advisers that pursuant to Article 23 of the Implementation Rules for Registration, Depository and Clearing Services under the Mainland-Hong Kong Stock Markets Connect Programme (內地與香港股票市場交易互聯互通機制登記、存管、結算業務實施細則), China Securities Depository and Clearing Corporation Limited would not provide services relating to the subscription of newly issued shares. Accordingly, even if the XYE Preferential Offering proceeds, beneficial holders of Shares who hold Shares through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect cannot participate in the XYE Preferential Offering and will not be eligible to take up their respective XYE Assured Entitlement through the mechanism of Shanghai-Hong Kong Connect or Shenzhen-Hong Kong Stock Connect.

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Distribution of the XYE Prospectus (May 2019) and the XYE BLUE Application Forms

An XYE **BLUE** Application Form, together with a printed copy of the XYE Prospectus (May 2019), has been despatched to each Qualifying Shareholder at the address of such Qualifying Shareholder recorded on the register of members of the Company as of 4:30 p.m. on the XYE Assured Entitlement Record Date.

Qualifying Shareholders may also obtain a printed copy of the XYE Prospectus (May 2019) during normal business hours from any of the designated branches of the receiving bank or the designated offices of the joint global coordinators of the Proposed XYE Global Offering as set forth in the XYE Prospectus (May 2019).

Distribution of the XYE Prospectus (May 2019) and/or the XYE **BLUE** Application Form(s) into any jurisdiction other than Hong Kong may be restricted by law. Persons into whose possession the XYE Prospectus (May 2019) and/or the XYE **BLUE** Application Form(s) come (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restriction. Any failure to comply with such restriction may constitute a violation of the securities laws of any such jurisdiction. In particular, the XYE Prospectus (May 2019) should not be distributed, forwarded or transmitted in, into or from any of the Specified Territories with or without the XYE **BLUE** Application Form(s), except to Qualifying Shareholders as specified in the XYE Prospectus (May 2019).

Receipt of the XYE Prospectus (May 2019) and/or the XYE **BLUE** Application Form(s) does not and will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, the XYE Prospectus (May 2019) and/or the XYE **BLUE** Application Form(s) must be treated as sent for information only and should not be copied or redistributed. Persons (including, without limitation, agents, custodians, nominees and trustees) who receive a copy of the XYE Prospectus (May 2019) and/or the XYE **BLUE** Application Form(s) should not, in connection with the XYE Preferential Offering, distribute or send the same in, into or from, any of the Specified Territories. If the XYE **BLUE** Application Form is received by any person in any such territory, or by his/her/its agent or nominee, he/she/it should not apply for any XYE Reserved Shares unless the Directors and the XYE Directors determine that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, agents, custodians, nominees and trustees) who forwards the XYE Prospectus (May 2019) and/or the XYE **BLUE** Application Form(s) in, into or from any Specified Territory (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this section.

Application procedures

The procedures for application under and the terms and conditions of the XYE Preferential Offering will be set forth in the XYE Prospectus (May 2019) and on the XYE **BLUE** Application Forms.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

Based on the expected timetable, in order to qualify for the XYE Assured Entitlement, all forms for transfers of Shares duly accompanied by the relevant certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Wednesday, 8 May 2019. The last day for dealing in the Shares cum-entitlement to the XYE Assured Entitlement will be Monday, 6 May 2019. This date is based on the expected timetable that the XYE Assured Entitlement Record Date is on Thursday, 9 May 2019. If there is any change in the timetable, the Company will issue an announcement in due course.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee formed by all the independent non-executive directors, namely Mr. CHENG Kwok Kin, Paul, Mr. LO Wan Sing, Vincent and Mr. KAN E-ting, Martin, has been established to advise the Independent Shareholders as to whether the terms of the Proposed Spin-Off and other related arrangements for the Proposed XYE Global Offering are fair and reasonable and whether the Proposed Spin-Off is in the interests of the Company and the Shareholders as a whole, taking into account the recommendation of the Independent Financial Adviser.

In the Major Transaction Circular, members of the Independent Board Committee confirmed that the terms of the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, and the Deed of Non-Competition, which form part of the arrangements for the Proposed Spin-Off and the Proposed XYE Listing, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Such view was confirmed following the change of the basis of the XYE Assured Entitlement to one (1) XYE Reserved Share for every integral multiple of 10 Shares held by the Qualifying Shareholders as of the XYE Assured Entitlement Record Date (as announced by the Company on 29 November 2018). The Independent Board Committee (as defined in the Major Transaction Circular) had considered the advice provided by Goldin Financial Limited, the then independent financial adviser to the Independent Board Committee (as defined in the Major Transaction Circular). Goldin Financial Limited has ceased to carry out Type 6 (advising on corporate finance) regulated activities under the SFO as it has surrendered its licence to the Securities and Futures Commission since December 2018.

For the purpose of this document, members of the Independent Board Committee unanimously confirm that they maintain their opinion that the terms of the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, and the Deed of Non-Competition, which form part of the arrangements for the Proposed Spin-Off Proposed XYE Global Offering, and the Proposed XYE Listing, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The Directors would like to emphasise that there is no assurance that the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will take place or the relevant approval will be granted, or as to when it may take place or be granted. The implementation of the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed Listing is dependent on a number of factors and subject to a number of conditions, which may

LETTER FROM THE BOARD

or may not be satisfied, including the approval of the Stock Exchange and the final decision of the Board and the XYE Board. There is no certainty as to whether, and if so when, the Proposed Spin-Off, Proposed XYE Global Offering, and the Proposed XYE Listing will take place. The expected market capitalisation of Xinyi Energy stated in this document is an estimation of the Directors only based on the information currently available to them and has yet to be discussed with investors through the book-building process that would be conducted by Xinyi Energy as part of the preparation for the Proposed XYE Global Offering.

ADDITIONAL INFORMATION

This document is being distributed to the Shareholders for information purpose only. This document does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this document nor anything contained therein shall form the basis of any contract or commitment whatsoever.

You should refer to the Major Transaction Circular if you would like to have background information on the Proposed Spin-Off, Proposed Target Disposal, and the Proposed XYE Listing.

Your attention is drawn to the additional information set forth in the section headed “General Information” in this document.

By order of the Board
Xinyi Solar Holdings Limited
LEE Yau Ching
Executive Director and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the letter of advice from the Independent Board Committee and forms an integral part of the contents of this document.



XINYI SOLAR HOLDINGS LIMITED

信義光能控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock code: 00968)

15 May 2019

To the Shareholders

Dear Sir or Madam

(1) DISCLOSEABLE TRANSACTION

UPDATED INFORMATION ON PROPOSED SPIN-OFF AND PROPOSED TARGET DISPOSAL

(2) CONNECTED TRANSACTIONS WITH XINYI ENERGY FOLLOWING PROPOSED XYE LISTING

UPDATED INFORMATION ON SOLAR FARM AGREEMENT AND SOLAR FARM O&M AGREEMENT

(3) DEED OF NON-COMPETITION

We refer to the document (the “**Document**”) issued by the Company to the Shareholders dated 15 May 2019. Unless the context requires otherwise, the capitalised terms used in this letter shall have the same meanings given to them in the section headed “Definitions” of the Document.

We have been requested by the Board to form the Independent Board Committee to advise the Shareholders on whether the terms of the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, Deed of Non-Competition, which form part of the arrangements for the Proposed Spin-Off and the Proposed XYE Listing, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter of advice from the Independent Financial Adviser appointed to advise the Independent Board Committee on the terms of the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, and the Deed of Non-Competition, which form part of the arrangements for the Proposed Spin-Off and the Proposed XYE Listing. The letter from the Independent Financial Adviser is set forth on pages 40 to 84 of the Document and the letter from the Board is set forth on pages 15 to 37 of the Document.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Independent Financial Adviser as stated in its letter of advice, we are of the view that the terms of the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, and the Deed of Non-Competition, which form part of the arrangements for the Proposed Spin-Off and the Proposed XYE Listing, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Your faithfully

For and on behalf of

The Independent Board Committee

Mr. CHENG Kwok Kin, Paul

Mr. LO Wan Sing, Vincent

Mr. KAN E-ting, Martin

Independent non-executive directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER



801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

15 May 2019

To the Independent Board Committee

Dear Sirs,

(1) DISCLOSEABLE TRANSACTION

UPDATED INFORMATION ON PROPOSED SPIN-OFF AND PROPOSED TARGET DISPOSAL

(2) CONNECTED TRANSACTIONS WITH XINYI ENERGY FOLLOWING THE PROPOSED XYE LISTING

UPDATED INFORMATION ON SOLAR FARM AGREEMENT AND SOLAR FARM O&M AGREEMENT

(3) DEED OF NON-COMPETITION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement and the respective transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 15 May 2019 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As set out in the Letter from the Board, the Proposed Spin-Off, together with the Proposed Target Disposal, constitutes a discloseable transaction (as such term is defined under the Listing Rules) of the Company. As part of the arrangements for the Proposed Spin-Off and the Proposed XYE Listing, the Solar Farm Agreement and the Solar Farm O&M Agreement have been entered into for the purpose of establishing clear business delineation between the Remaining Group and the Xinyi Energy Group, which will carry on, inter alia, the Solar Farm Development Business and the Solar Farm Operation Business, respectively. The Deed of Non-Competition has also been entered into as part of the arrangement for the Proposed Spin-Off and the Proposed XYE Listing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, members of the Xinyi Energy Group are connected subsidiaries (as such term is defined under the Listing Rules) of the Company. Following completion of the Proposed Spin-Off and the Proposed XYE Listing, members of the Xinyi Energy Group will continue to be non-wholly owned subsidiaries of the Company and the operating results of the Xinyi Energy Group will continue to be consolidated into the financial statements of the Remaining Group. As the Controlling Shareholders will also be the XYE Controlling Shareholders and will hold more than 10.0% of the XYE Shares in issue following completion of the Proposed XYE Global Offering, members of the Xinyi Energy Group will continue to be connected subsidiaries (as such term is defined under the Listing Rules) of the Company and hence, the Proposed Target Disposal will constitute a connected transaction (as such term is defined under the Listing Rules) for the Company and the Solar Farm Agreement and the Solar Farm O&M Agreement will constitute continuing connected transactions (as such term is defined under the Listing Rules) for the Company.

We, Octal Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee on the terms of the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement, Solar Farm O&M Agreement, Deed of Non-Competition and respective transactions contemplated thereunder, and to opine (i) whether the terms of the transactions are fair and reasonable; (ii) whether the transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Remaining Group; and (iii) whether the transactions are in the interests of the Company and the Shareholders as a whole. We are not connected with the Directors, chief executive and substantial shareholders of the Company or any of its respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee. In the last two years, we have not acted in any financial adviser role to the Company in any way. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company and its respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Proposed Spin-Off, Target Sale and Purchase Agreement, Solar Farm Agreement, Solar Farm O&M Agreement, the Deed of Non-Competition and respective transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Background of the Group and the Xinyi Energy Group

1.1 Business of the Group

The Company, incorporated in the Cayman Islands on 11 January 2011, is an investment holding company and its shares are listed on the Stock Exchange. The Group, together with its subsidiaries, operates three principal businesses:

- (i) Solar Glass Business
- (ii) Solar farm business comprising Solar Farm Development Business and Solar Farm Operation Business
- (iii) EPC service business: provision of engineering, procurement and construction services for solar farm projects owned and operated by third parties (the “**EPC Service Business**”)

As at 31 December 2018, the Group had grid-connected solar projects of total capacity 2,500MW, including 2,344MW utility-scale ground-mounted projects and 156MW rooftop distributed generation projects (with electricity generation for self-consumption and selling to the grid), all these solar farm projects are located in provinces or municipalities with high electricity demand, such as Anhui, Hubei, Tianjin, Henan and Fujian. Immediately after the Proposed Spin-Off and the Proposed XYE Listing, the Remaining Group will continue to operate the remaining business, being the Solar Glass Business, the Solar Farm Development Business and the EPC Service Business (the “**Remaining Business**” collectively).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the information extracted from the annual reports of the Company for the year ended 31 December 2017 (the “**2017 Annual Report**”) and 31 December 2018 (the “**2018 Annual Report**”), set out below is a summary of the consolidated financial information of the Group for the three financial years ended 31 December 2016, 2017 and 2018:

	For the year ended 31 December		
	2016	2017	2018
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Solar Glass Business	4,276,494	5,746,142	5,562,253
Solar farm business	1,049,845	1,473,504	1,920,475
EPC Service Business	680,742	2,307,385	188,904
Revenue	6,007,081	9,527,031	7,671,632
Profit for the year attributable to equity holders	1,985,630	2,332,031	1,863,146

For the year ended 31 December 2017, the Group recorded revenue of approximately HK\$9,527.0 million, representing a significant increase of approximately HK\$3,520.0 million or 58.6% over the previous year, mainly due to (i) the net effect of higher sale volume and lower average selling price of solar glass; (ii) the increasing capacity of its solar farms upon expansion; and (iii) the increasing contribution from the engineering, procurement and construction (“**EPC**”) Service Business as a result of (a) the service income derived from several large-scale EPC projects with an aggregate capacity of about 300 MW completed during the year in relation to the photovoltaic (“**PV**”) poverty alleviation programs in different counties within Anhui province, the PRC and (b) an increase in revenue contribution from a subsidiary specialising in residential and commercial distributed generation projects in Canada. The Group’s profit attributable to equity holders increased by approximately HK\$346.4 million or 17.4% to approximately HK\$2,332.0 million for the year ended 31 December 2017 as compared to approximately HK\$1,985.6 million for the year ended 31 December 2016.

For the year ended 31 December 2018, the Group recorded revenue of approximately HK\$7,671.6 million, representing a decrease of approximately HK\$1,855.4 million or 19.5% from the previous year, mainly due to the significant decrease in income from the supplementary EPC Service Business from approximately HK\$2,307.4 million for the year ended 31 December 2017 to approximately HK\$188.9 million for the year ended 31 December 2018 as no large-scale PV poverty alleviation projects was carried out apart from the residential and commercial distributed generation projects in Canada and China with an aggregate capacity of about 16 MW. The Group’s profit

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

attributable to equity holders decreased by approximately HK\$468.9 million or 20.1% to approximately HK\$1,863.1 million for the year ended 31 December 2018 as compared to approximately HK\$2,332.0 million for the year ended 31 December 2017.

	As at 31 December 2018
	<i>(HK\$'000)</i>
Current assets	6,803,200
Non-current assets	17,089,300
Current liabilities	6,737,349
Non-current liabilities	5,096,233
Net current assets	65,851
Net assets	12,058,918

As at 31 December 2018, the Group recorded net assets of approximately HK\$12,058.9 million, while the net current assets of the Group amounted to approximately HK\$65.9 million. We noted that the slight increase in net assets over the corresponding period of previous year is primarily due to the increase in property, plant and equipment of approximately HK\$1,564.3 million during the year.

1.2 Business of the Xinyi Energy Group

Xinyi Energy is incorporated in the BVI with limited liability on 26 June 2015. The Xinyi Energy Group is principally engaged in the solar farm operation business in the PRC through its subsidiaries in the PRC.

The aggregate approved capacity of the nine solar farm projects under the Initial Portfolio owned and operated by the Xinyi Energy Group amounted to 954MW. Based on the post hearing information pack of the XYE Prospectus (May 2019) (the “PHIP”), set out below is a summary of the consolidated financial information of the Xinyi Energy Group for the three financial years ended 31 December 2016, 2017 and 2018:

	For the year ended 31 December		
	2016	2017	2018
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Sale of electricity	360,291	416,035	457,068
Tariff adjustment	608,000	700,009	743,488
Revenue	968,291	1,116,044	1,200,556
Profit for the year attributable to equity holders	659,005	719,639	745,027

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2017, the Xinyi Energy Group recorded revenue of approximately HK\$1,116.0 million, representing an increase of approximately HK\$147.8 million or 15.3% over the previous year, mainly due to (i) the increase in units of electricity sold from the full year operation of the solar farm projects under the Initial Portfolio that commenced operation in 2016 while the approved capacity remained unchanged as at 31 December 2017 as compared to the previous year; and (ii) the increase in tariff adjustment which was consistent with the increase in units of electricity sold during the year. Sale of electricity increased by approximately 15.5% to approximately HK\$416.0 million, accounted to approximately 37.3% of the total revenue for the year ended 31 December 2017. The Xinyi Energy Group's profit attributable to equity holders increased by approximately HK\$60.6 million or 9.2% to approximately HK\$719.6 million for the year ended 31 December 2017 as compared to approximately HK\$659.0 million for the year ended 31 December 2016.

For the year ended 31 December 2018, the Xinyi Energy Group recorded revenue of approximately HK\$1,200.6 million, representing an increase of approximately HK\$84.5 million or 7.6% over the previous year, mainly due to the commencement of grid connection of the utility-scale ground-mounted solar farm projects under the Initial Portfolio and the increasing number of solar farm projects in full business operation during the year ended 31 December 2018. Sale of electricity increased by approximately 9.9% to approximately HK\$457.1 million, accounted to approximately 38.1% of the total revenue for the year ended 31 December 2018. The Xinyi Energy Group's profit attributable to equity holders increased by approximately HK\$25.4 million or 3.5% to approximately HK\$745.0 million for the year ended 31 December 2018 as compared to approximately HK\$719.6 million for the year ended 31 December 2017.

	As at 31 December 2018
	<u>(HK\$'000)</u>
Current assets	2,266,745
Non-current assets	6,128,909
Current liabilities	936,224
Non-current liabilities	1,053,729
Net current assets	1,330,521
Net assets	6,405,701

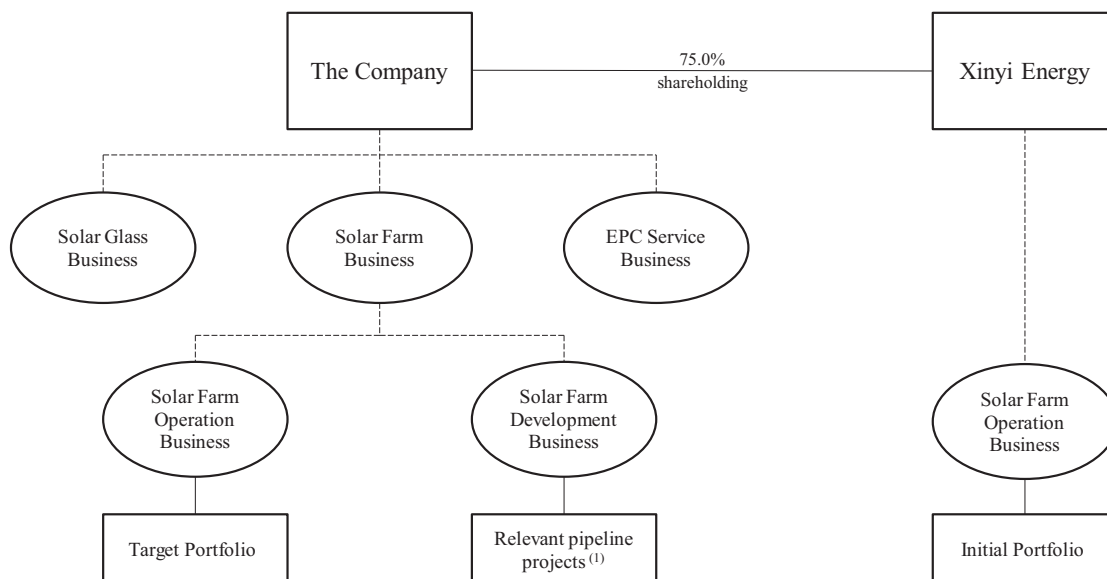
As at 31 December 2018, the Xinyi Energy Group recorded net assets of approximately HK\$6,405.7 million, while the net current assets of the Group amounted to approximately HK\$1,330.5 million. We noted that the increase in net assets is primarily due to the decrease of bank borrowings of approximately HK\$1,027.6 million during the year.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

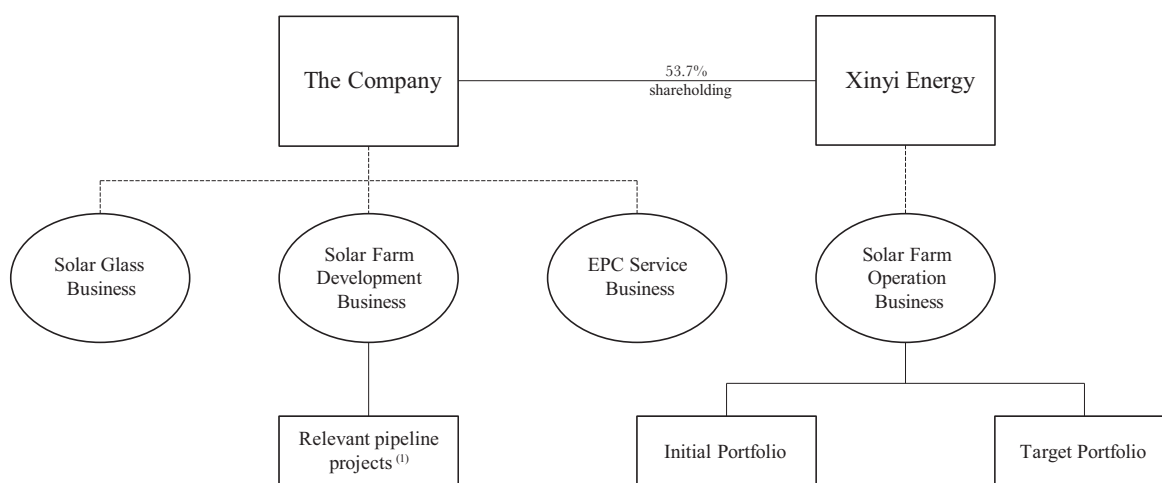
1.3 Business Structure of the Group and the Xinyi Energy Group

The following charts set out business structure of the Group and the Xinyi Energy Group (i) as at the Latest Practicable Date; (ii) immediately after completion of the Proposed Spin-Off and the Proposed Target Disposal; and (iii) immediately after completion of the Proposed Spin-Off, the Proposed Target Disposal and the exercise of the Solar Farm Call Option, respectively:

(i) as at the Latest Practicable Date

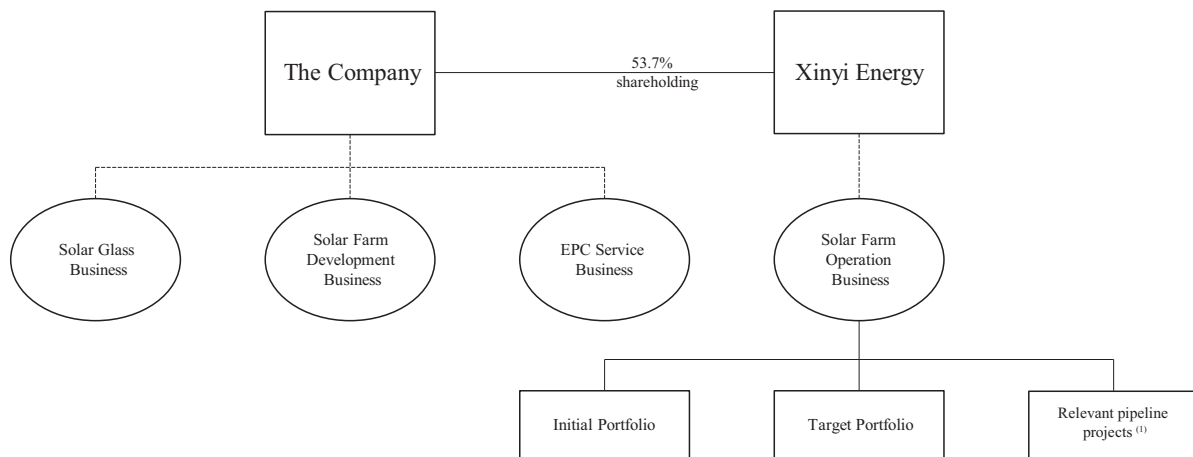


(ii) immediately after completion of the Proposed Spin-Off and the Proposed Target Disposal



LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) immediately after completion of the Proposed Spin-Off, the Proposed Target Disposal and the exercise of the Solar Farm Call Option



Note:

- (1) Relevant pipeline projects consist of 10 solar farms under development and construction with aggregate approved capacity of 850MW as at Latest Practicable Date

For details of the shareholding and corporate structure of the Xinyi Energy Group, please refer to the section headed “History, Development, and Corporate Structure” in the PHIP.

2. Reasons for and Benefits of the Proposed Spin-Off, the Proposed XYE Listing, the Entering of the Target Sale and Purchase Agreement and the Solar Farm Agreement

2.1 Reasons for and Benefits of the Proposed Spin-Off and the Proposed XYE Listing

As set out in the “Letter from the Board” contained in the Major Transaction Circular, the Remaining Group focuses on industrial sector and is generally valued by investors on a price-to-earning basis, while the Xinyi Energy Group is typically valued by dividend yield basis considering its adoption of high dividend yield policy and the relatively stable revenue generating nature of the Solar Farm Operation Business. Given the diversity in nature of business and source of revenue, the Proposed Spin-Off will enable investors to appraise the performance and potential of the Remaining Group and Xinyi Energy Group separately. The Directors believe that the Proposed Spin-Off may enable the Remaining Group to attract investors who specifically seek to invest in industrial businesses of solar glass manufacturing, solar farm development and provision of EPC services, and also enable the Xinyi Energy Group to attract investors who are interested in relatively stable financial performance and high dividend payout ratio, thereby achieving a clear valuation for each of the Remaining Group and the Xinyi Energy Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Proposed Spin-Off may also allow the Xinyi Energy Group with direct access to the debt and equity capital markets to finance their future growths and to enhance its corporate profile, thereby increasing its ability to attract strategic investors, who can produce synergy for investment in and forming strategic partnerships directly with the Xinyi Energy Group. The Directors also believe that the Proposed Spin-Off will unlock the Xinyi Energy Group's shareholder value as a result of the increased financial reporting transparency of the Solar Farm Operation Business, and enhance access to capital by virtue of Xinyi Energy's separate listing status so as to support its development plans in the years to come. Furthermore, as the operating results of the Xinyi Energy Group will continue to be consolidated with the Group after the Proposed Spin-Off and therefore the Company will continue to enjoy the economic benefits brought by the former.

With respect to the distinctive growth paths and business strategies between the Remaining Group and the Xinyi Energy Group, the management focus, expertise and skills which are required for the respective businesses are different, and the Proposed Spin-Off will allow for a clearer separation of operations and management, enabling a more focused strategy and efficient resource allocation. The enhanced management focus could lead to improved decision-making processes, quicker responsiveness to the market and higher operational efficiency.

Given the Proposed Spin-Off and the Proposed XYE Listing could (i) enable investors to appraise the value of the Remaining Group and the Xinyi Energy Group separately due to the different business models and valuation methodologies; (ii) provide investors with separate fund raising platforms to increase the financial flexibility of both groups; and (iii) promote better alignment of management teams in enhancing the responsiveness to any market change, we concur with the Directors' view that the Proposed Spin-Off and the Proposed XYE Listing are in the interests of the Company and the Shareholders as a whole. Further details of the reasons and benefits of the Proposed Spin-Off and the Proposed XYE Listing are set out in the sub-section headed "Benefits of the Proposed Spin-Off" in the "Letter from the Board" contained in the Major Transaction Circular.

2.2 Reasons for and Benefits of the Proposed Target Disposal and the Solar Farm Agreement

Upon the Proposed Spin-Off and the Proposed XYE Listing, the Company and Xinyi Energy will enter into the Target Sale and Purchase Agreement and the Solar Farm Agreement in order to facilitate business delineation between the Remaining Group and Xinyi Energy Group.

Pursuant to the Proposed Target Disposal, the Company will dispose to Xinyi Energy the entire equity interests of the Target Companies which currently operate and manage the Target Portfolio comprising six solar farm projects with an aggregate approved capacity of 540 MW located in Hubei Province, Henan Province and Anhui Province. As at the Latest Practicable Date, the construction of all utility-scale ground-mounted solar farm projects under the Target Portfolio has been completed and all of them are grid-connected.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the Solar Farm Agreement, Xinyi Energy will be granted the Solar Farm Call Option and the Solar Farm ROFR to acquire the solar farm projects constructed or developed by the Remaining Group which have completed construction and are grid-connected (the “**Covered Projects**”) to achieve further business delineation between the Remaining Group and Xinyi Energy Group. As set out in the PHIP, certain solar farm projects in the pipeline may have achieved moderate progress with the commencement of feasibility study for construction, and the others include solar farm projects that have completed the critical phases of development and feasibility study before construction, and have obtained the preliminary approval from the NDRC for conducting preliminary work or the supporting documents for land resumption, environmental impact assessment, water reservation and grid connection. As at the Latest Practicable Date, the Group had ten pipeline solar farm projects under development and construction in Anhui Province, Jilin Province, Guangdong Province and Hainan Province with an aggregate approved capacity of 850 MW.

Upon discussion with Company, we noted that the management currently expects the construction of the pipeline projects will be completed by 2019 and 2020, while all the utility-scale ground-mounted solar farm projects of the Remaining Group that are grid-connected and have substantially completed construction will either be disposed (i) to Xinyi Energy upon exercise of the Solar Farm Call Option or (ii) to independent third parties subject to the Solar Farm ROFR. We noted that the selling price of such completed solar farm projects will be not less than the amount of 110% of the actual reasonable and documented construction costs of the solar farm projects (the “**Cost-Plus Pricing**”). This Cost-Plus Pricing mechanism in determination of the Call Right Price (as defined in the Major Transaction Circular) would safeguard the interests of the Company as a positive profit margin is ensured for disposal of Covered Projects to the Xinyi Energy Group (details as discussed in the below sub-section headed “6.1 Call Right Price”).

We noted that when the Company receives an offer (the “**Third Party Offer**”) from a third party for acquisition of any completed utility-scale ground-mounted solar farm projects, Xinyi Energy will have the right to acquire such Covered Projects upon the same terms and conditions and at the same prices prior to proceeding with disposal to the independent third parties, hence the disposal of Covered Projects under the Solar Farm Agreement are no less favourable than proceeding disposal with independent third parties. If Xinyi Energy gives up such opportunity, the Company may dispose such Covered Projects to independent third parties on the agreed terms and conditions.

Given that (i) the disposal of the Target Portfolio and completed solar farm projects under the Target Sale and Purchase Agreement and the Solar Farm Agreement implements business delineation and facilitates the respective business development of the Remaining Group and the Xinyi Energy Group; (ii) the disposal of Covered Projects to Xinyi Energy on a preferential basis pursuant to the Solar Farm Call Option and the Solar Farm ROFR represents a reasonable arrangement between the Remaining Group and the Xinyi Energy Group; (iii) the terms of the Target Sale and Purchase Agreement including the mechanism of determining the Target Selling Price and the payment arrangement thereof (as discussed in the below sub-sections headed “4.2 The Determination of the Target Selling Price” and “4.3 Payment of the Target Selling Price”) are fair and reasonable; and (iv) the terms of the Solar Farm Agreement including the determination of Call Right Price and the mechanism of deriving the Implied Multiple under the Solar Farm Call Option (as discussed in the below sub-section headed “6. Solar Farm Agreement”) are fair and reasonable, we are of the view that the entering into of the Target Sale and Purchase Agreement and the Solar Farm Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. The Proposed Spin-Off

3.1 *Intended Use of Proceeds of the Proposed Spin-Off*

As set out in the “Letter from the Board” contained in the Major Transaction Circular, it is expected that Xinyi Energy will receive from the Proposed XYE Global Offering a net proceeds in the range of approximately HK\$3.4 billion to HK\$4.3 billion. As set out in the sub-section headed “Proposed use of net proceeds by Xinyi Energy from the Proposed XYE Global Offering” in the “Letter from the Board” contained in the Major Transaction Circular, the Xinyi Energy Group intends to use the net proceeds from the Proposed XYE Global Offering for the following purposes:

- approximately 90.0% of the net proceeds of approximately HK\$3.1 billion to HK\$3.9 billion to fulfil the payment of the Target Selling Price, of which an upfront one-off payment of 50.0% will be settled upon completion of the Proposed Target Disposal and the remaining balance of 50.0% will be settled on the earlier of (a) the fourth anniversary of the XYE Listing Date, which is currently expected to be in the second half of 2023, and (b) by instalments following the receipt of the tariff adjustment receivables relating to the solar farm projects under the Target Portfolio pursuant to the Target Sale and Purchase Agreement; and
- approximately 10.0% of the net proceeds of approximately HK\$0.3 billion to HK\$0.4 billion to replenish its working capital and loan refinancing to reduce the interest expenses.

As set out in the “Letter from the Board” contained in the Major Transaction Circular, to the extent that the net proceeds from the Proposed XYE Global Offering are not immediately applied to the above purposes, the Xinyi Energy Group intends to place the same in (a) making short-term interest-bearing deposits; (b) purchasing money-market instruments issued by authorized financial institutions and/or licensed banks in Hong Kong or the PRC; and (c) purchasing investment-grade bond products.

3.2 *Principal Terms of the Proposed Spin-Off*

As disclosed in the Letter from the Board, the Company initially submitted an application to the Stock Exchange for the Proposed Spin-Off pursuant to Practice Note 15 on 13 February 2017, and the Stock Exchange confirmed on 13 September 2017 that the Company might proceed with the Proposed Spin-Off. Taking into consideration the capital market condition and the possible valuation of the Xinyi Energy Group, the Directors, on 14 December 2018, considered that it would be beneficial to the Group to postpone the Proposed Spin-Off and the Proposed XYE Listing.

As at the Latest Practicable Date, all solar farm projects under the Initial Portfolio have been enlisted on the sixth and seventh batch of the Subsidy Catalogue. In addition, the Group has received tariff adjustment from the PRC Government in the aggregate amount of RMB1,004.3 million (equivalent to HK\$1,145.7 million) as at the Latest Practicable Date. These developments significantly reduce the uncertainty on the possible valuation of the Xinyi Energy Group.

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As at the Latest Practicable Date, Xinyi Energy is a non-wholly owned subsidiary of the Company that holds 75.0% of the XYE Shares in issue. The remaining 25.0% of the XYE Shares in issue are held by the Equity Investors. Pursuant to the Proposed XYE Global Offering, Xinyi Energy will issue the XYE Offer Shares. Upon completion of the Proposed XYE Global Offering and based on the current structure of the Proposed XYE Global Offering, Xinyi Energy will become a company listed on the Stock Exchange and will continue to be a non-wholly owned subsidiary of the Company which will be expected to hold approximately 53.7% of the XYE Shares in issue. These XYE Offer Shares will be offered to general public in Hong Kong, institutional, professional and other investors in selected jurisdictions pursuant to the Proposed XYE Global Offering. Pursuant to the Proposed XYE Global Offering, it is expected that 12.1% of the XYE Shares in issue following the completion of the Proposed XYE Global Offering and the Proposed XYE Capitalisation Issue, subject to change, will be offered to the Qualifying Shareholders pursuant to the XYE Assured Entitlement.

3.3 Valuation of Xinyi Energy

Based on the information currently available, the Directors expect the market capitalisation of the Xinyi Energy Group at the time of the Proposed XYE Listing would be in the range between HK\$12.5 billion to HK\$15.6 billion.

As set out in the PHIP, Xinyi Energy Group will adopt a high dividend payout policy and intend to declare and distribute interim and final distributions in each year of not less than 90% of distributable income following the Proposed XYE Listing, we have assessed the fairness and reasonableness of the expected market valuation of Xinyi Energy based on a distribution yield basis, which represents an appropriate valuation methodology in our opinion. On this basis, we have researched for companies that are dividend-oriented and typically operationally stable in nature and generate stable returns with the objective to distribute most of their distributable incomes/net profits to their shareholders. Based on these criteria, we have included companies that (i) are listed on the main board of the Stock Exchange in Hong Kong; (ii) are principally engaged in the utility sector including electricity supply businesses, gas supply businesses, water supply businesses or telecommunication service businesses, which are relatively stable revenue generating nature; and (iii) have a dividend payout ratio of over 90% of its distributable income/net profit in the latest financial year after excluding any special dividends. Based on our research on the official website of the Stock Exchange and on a best-effort basis, we have identified five comparable companies (the “**Dividend Comparables**”). Despite some of the Dividend Comparables are not in the same industry as Xinyi Energy, given that they have similar business model and strategy in generating stable revenues and adoption of high dividend payout policy, we consider that the Dividend Comparables are relevant and appropriate for the purpose of comparing the dividend yield of Xinyi Energy. Set out below (“**Table 1**”) is a summary of the Dividend Comparables.

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Table 1: A summary of the Dividend Comparables

Company name	Stock code	Dividend yield^(Note 1)
		<i>(approximately %)</i>
PCCW Ltd.	8	6.6
Huaneng Power International, Inc.	902	2.4
HKBN Ltd.	1310	4.2
HK Electric Investments and HK Electric Investments Ltd.	2638	5.2
HKT Trust and HKT Ltd.	6823	5.7
	Maximum	6.6
	Minimum	2.4
	Average	4.8
	Median	5.2
Xinyi Energy ^(Note 2)		6.3

Sources: Stock Exchange

Notes:

1. The dividend yield of the Dividend Comparables are calculated as the annual dividends declared per share for the latest full financial year as disclosed in their respective latest published annual reports divided by the respective share prices as at the Latest Practicable Date.
2. The dividend yield of Xinyi Energy is calculated by dividing the aggregate amount of (i) 90% of the distributable income of Xinyi Energy in the amount of approximately HK\$678.1 million for the year ended 31 December 2018 and (ii) 90% of the distributable income of the Target Companies in the amount of approximately HK\$305.5 million for the year ended 31 December 2018, as the minimum distribution amount for the year, by the expected average market capitalisation of Xinyi Energy based on the mid-point of the indicative range of the Proposed XYE Global Offering of approximately HK\$14.1 billion.

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As seen from Table 1 above, the dividend yield represented by the Dividend Comparables ranged from 2.4% to 6.6% with an average dividend yield of approximately 4.8% and a median dividend yield of approximately 5.2%. We noted that the distribution yield of Xinyi Energy for the year ended 31 December 2018 of approximately 6.3% falls within the range of the dividend yields of the Dividend Comparables and is higher than the average and median dividend yield of the Dividend Comparables. Therefore, we are of the view that the expected average market capitalisation of Xinyi Energy based on the distribution yield basis is fair and reasonable.

We have conducted further independent research in assessing the fairness and reasonableness of the market valuation of Xinyi Energy in the Proposed XYE Global Offering. We have attempted to analyse the price-to-earnings ratio (the “**P/E Ratio(s)**”) and the price-to-book ratio(s) (the “**P/B Ratio(s)**”) of Xinyi Energy with those of comparable companies in the market. As explained in the above paragraph, we cannot identify any companies listed in Hong Kong which are principally engaged in the operation and management of solar farms (the “**O&M Related Business**”) and are dividend-oriented. To further assess the valuation of Xinyi Energy by using the P/E Ratio and P/B Ratio, we have therefore revised the selection criteria for the comparable companies which (i) are listed in Hong Kong; (ii) are principally engaged in the O&M Related Business; and (iii) recorded at least 50% of revenue from the O&M Related Business as disclosed in respective latest published annual reports. Based on these criteria, we have identified a list of four comparable companies (the “**Industry Comparables**”). In view of two of the Industry Comparables, namely Panda Green Energy Group Limited and China Smarter Energy Group Holdings Limited, recorded net loss attributable to the equity shareholders, and their P/E ratio would not be applicable, we have alternatively analysed the price to earnings before taxes, interest, depreciation and amortization ratio (the “**P/EBITDA Ratio(s)**”). Set out below (“**Table 2**”) is a summary of the Industry Comparables.

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Table 2: A summary of the Industry Comparables

<u>Company</u>	<u>Stock code</u>	<u>Principal business</u>	<u>P/EBITDA Ratio as at the Latest Practicable Date ^(Note 1)</u> <i>(times)</i>	<u>P/B Ratio as at the Latest Practicable Date ^(Note 2)</u> <i>(times)</i>
Kong Sun Holdings Limited	295	Principally engaged in investment in and operation of solar power plants, provision of solar power plants operation and maintenance services, provision of financial services and asset management	0.8	0.2
GCL New Energy Holdings Limited	451	Principally engaged in the sale of electricity, development, construction, operation and management of solar power plants	0.9	0.7
Panda Green Energy Group Limited	686	Principally engaged in the development, investment, operation and management of solar power plants and other renewable energy projects	2.3	0.8
China Smarter Energy Group Holdings Limited	1004	Principally engage in the sale of electricity, trading in securities and investments	29.4 ^(Note3)	2.9
		Maximum	29.4	2.9
		Minimum	0.8	0.2
		Average	8.4	1.1
		Median	1.6	0.7
Xinyi Energy ^(Note 4)			8.6	1.4
Target Companies ^(Note 5)			9.0	2.2

Sources: Stock Exchange

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Notes:

1. The P/EBITDA Ratio is based on the market capitalisation of the respective Industry Comparables as at the Latest Practicable Date divided by the earnings before interest, taxes, depreciation and amortisation of the respective Industry Comparables in their respective latest annual reports extracted from the website of the Stock Exchange.
2. The P/B Ratio is based on the market capitalisation of the respective Industry Comparables as at the Latest Practicable Date divided by the equity attributable to shareholders of the respective Industry Comparables in their respective latest financial statements extracted from the website of the Stock Exchange.
3. The P/EBITDA Ratio of China Smarter Energy Group Holdings Limited is calculated by dividing its market capitalisation of approximately HK\$4.9 billion by its earnings before interest, taxes, depreciation and amortisation for the latest accounting period from 1 April 2018 to 31 December 2018 of approximately HK\$159.2 million.
4. The P/EBITDA Ratio of Xinyi Energy is calculated by dividing the expected average market capitalisation of Xinyi Energy based on the mid-point of the indicative range of the Proposed XYE Global Offering of approximately HK\$14.1 billion by the aggregate amount of (i) the earnings before interest, taxes, depreciation and amortisation of Xinyi Energy for the year ended 31 December 2018 of HK\$1,105.1 million and (ii) the earnings before interest, taxes, depreciation and amortisation of the Target Companies for the year ended 31 December 2018 of approximately HK\$530.9 million. The P/B Ratio of Xinyi Energy is calculated by dividing the expected average market capitalisation of Xinyi Energy based on the mid-point of the indicative range of the Proposed XYE Global Offering of approximately HK\$14.1 billion by the unaudited pro forma adjusted consolidated net assets attributable to equity holders of Xinyi Energy of approximately HK\$10,296.5 million.
5. For illustrative purpose only, the P/EBITDA Ratio of the Target Companies is calculated by dividing the Preliminary Selling Price for the solar farm projects under the Target Portfolio of approximately RMB4,090.8 million (equivalent to approximately HK\$4,765.0 million) by the earnings before interest, taxes, depreciation and amortisation of the Target Companies for the year ended 31 December 2018 of approximately HK\$530.9 million. The P/B Ratio of the Target Companies is calculated by dividing the Preliminary Selling Price for the solar farm projects under the Target Portfolio of approximately RMB4,090.8 million (equivalent to approximately HK\$4,765.0 million) by the net assets attributable to equity holders of the Target Companies for the year ended 31 December 2018 of approximately HK\$2,140.4 million.

As demonstrated in Table 2 above, the P/EBITDA Ratios of the Industry Comparables ranged from 0.8 times to 29.4 times with an average P/EBITDA Ratio of 8.4 times and a median P/EBITDA Ratio of 1.6 times. The P/EBITDA Ratio of Xinyi Energy of approximately 8.6 times is within the range and higher than the average and median P/EBITDA Ratio represented by the Industry Comparables.

The P/B Ratios of the Industry Comparables ranged from 0.2 times to 2.9 times with an average P/B Ratio of 1.1 times and a median P/B Ratio of 0.7 times. The P/B Ratio of Xinyi Energy is approximately 1.4 is within the range and higher than the average and median P/B Ratio among the Industry Comparables.

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Considering that:

- (i) the P/EBITDA Ratio of Xinyi Energy is within the range and higher than the average and median P/EBITDA Ratio represented by the Industry Comparables hence representing a premium over the P/EBITDA Ratios of the Industry Comparables; and
- (ii) the P/B Ratio of Xinyi Energy is within the range and higher than the average and median P/B Ratio represented by the Industry Comparables hence representing a premium over the P/B Ratios of the Industry Comparables;

we are of the view that the proposed market capitalisation of the Proposed XYE Listing is fair and reasonable and in the interests of the Company and Shareholders as a whole.

3.4 XYE Assured Entitlement

In accordance with the requirements of Practice Note 15, the Company will give due regard to the interests of the Shareholders by providing Qualifying Shareholders with the XYE Assured Entitlement. In this case, Qualifying Shareholders are invited to apply for the XYE Reserved Shares representing 42.7% of the XYE Offer Shares under the Proposed XYE Global Offering (assuming no reallocation and the over-allotment option is not exercised). The XYE Reserved Shares will not be subject to reallocation between the different tranches under the Proposed XYE Global Offering. The basis of the XYE Assured Entitlement is one Reserved Share for every integral multiple of 10 Shares held by Qualifying Shareholders as at 4:30 p.m. on the XYE Assured Entitlement Record Date. Further details are set out in the Letter from the Board.

In assessing the fairness and reasonableness of the proportion of the XYE Offer Shares which would be available as XYE Reserved Shares, we have performed research on comparable spin-off exercises with assured entitlements completed by companies listed in Hong Kong since 1 January 2018 and up to the Latest Practicable Date, excluding those spin-off exercises which were (i) conducted by way of introduction; and/or (ii) implemented by way of distribution in specie which are considered to be not comparable to the XYE Assured Entitlement. To the best of our knowledge and on a best-effort basis, we have identified a list of six comparable spin-off exercises (the “**Spin-Off Comparables**”). Shareholders should note that the Spin-Off Comparables are not identical among themselves and to Xinyi Energy in terms of principal business, operations and financial position and therefore the following comparison is for general reference purpose only. Set out below (“**Table 3**”) is a summary of the Spin-Off Comparables.

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Table 3: A summary of the Spin-Off Comparables

<u>Company name</u>	<u>Stock code</u>	<u>Date of prospectus</u>	<u>Number of reserved shares/share stapled units</u>	<u>Number of shares/share stapled units offered</u>	<u>Preferential entitlement (Note)</u>
					<i>Approximate %</i>
Shanghai Dongzheng Automotive Finance Co., Ltd.	2718	14 March 2019	26,675,462	533,336,000	5.0
Aoyuan Healthy Life Group Company Limited	3662	28 February 2019	14,000,000	175,000,000	8.0
Fosun Tourism Group . .	1992	30 November 2018	21,420,000	214,200,000	10.0
Kaisa Property Holdings Limited	2168	26 November 2018	3,035,040	35,000,000	8.7
Oriental Payment Group Holdings Limited	8613	27 September 2018	20,000,000	250,000,000	8.0
A-Living Services Co., Ltd.	3319	29 January 2018	27,835,340	333,334,000	8.4
				Maximum	10.0
				Minimum	5.0
				Average	8.0
				Median	8.2
Xinyi Energy					42.7

Sources: Stock Exchange

Note: The assured entitlements of the Spin-Off Comparables are presented as a percentage of number of shares/share stapled units initially offered under the respective share offers.

As shown in Table 3 above, the preferential entitlements of the Spin-Off Comparables ranged from approximately 5.0% to 10.0% with an average of approximately 8.0% and a median of approximately 8.2%. The preferential entitlement of the XYE Assured Entitlement of approximately 42.7% therefore is higher than the range of percentage of assured entitlement as represented by the Spin-Off Comparables. As such, we consider the terms of the XYE Assured Entitlement is in the interest of the Qualifying Shareholders.

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4. Proposed Target Disposal

Following the Proposed XYE Listing, the Company will enter into the Target Sale and Purchase Agreement with Xinyi Energy to dispose of six utility-scale ground-mounted solar farm projects comprising the Target Portfolio at the Target Selling Price. All solar farm projects under the Target Portfolio were developed and constructed under the national quota system in the PRC with an aggregate approved capacity of 540 MW. The approved capacities of the respective solar farm projects comprising the Target Portfolio ranged from 20 MW to 200 MW.

4.1 Background of the Target Companies

The Target Companies consist of the entire issued shares of New Wisdom, Sky Falcon, Perfect Alliance, Profit Noble and Sky Cheer, which hold, through their respective wholly-owned subsidiaries in the PRC, six utility-scale ground-mounted solar farm projects with an aggregate approved capacity of 540 MW under the Target Portfolio.

As at the Latest Practicable Date, the construction of the solar farm projects has been completed and all of them are grid-connected. Based on the PHIP, set out below is a summary of the consolidated financial information of the Target Companies for the three financial years ended 31 December 2016, 2017 and 2018:

	For the year ended 31 December		
	2016	2017	2018
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Sale of electricity	32,900	131,173	224,992
Tariff adjustment	54,012	206,299	324,324
Revenue	<u>86,912</u>	<u>337,472</u>	<u>549,316</u>
Profit for the year attributable to equity holders	61,040	242,940	377,837

For the year ended 31 December 2017, the Target Companies recorded a combined revenue of approximately HK\$337.5 million, representing a significant increase of approximately HK\$250.6 million or 288.3% over the previous year mainly due to (i) the increase in sale of electricity from all of the six grid-connected solar farm projects comprising the Target Portfolio; and (ii) the increase in tariff adjustment corresponding with the sale of electricity. Sale of electricity increased by approximately 298.7% to approximately HK\$131.2 million, accounted to approximately 38.9% of the total revenue for the year ended 31 December 2017. The combined profit attributable to equity holders of the Target Companies increased by approximately HK\$181.9 million or 298.0% to approximately HK\$242.9 million for the year ended 31 December 2017 as compared to approximately HK\$61.0 million for the year ended 31 December 2016.

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For the year ended 31 December 2018, the Target Companies recorded a combined revenue of approximately HK\$549.3 million, representing a significantly increase of approximately HK\$211.8 million or 62.8% over the previous year mainly due to (i) the increase in electricity generation and sales from the six grid-connected solar farm projects; and (ii) the increase in tariff adjustment corresponding with the sale of electricity. Sale of electricity increased by approximately 71.5% to approximately HK\$225.0 million, accounted to approximately 41.0% of the total revenue for the year ended 31 December 2018. The combined profit attributable to equity holders of the Target Companies increased by approximately HK\$134.9 million or 55.5% to approximately HK\$377.8 million for the year ended 31 December 2018 as compared to approximately HK\$242.9 million for the year ended 31 December 2017.

	As at 31 December 2018
	<i>(HK\$'000)</i> <i>(audited)</i>
Current assets	1,365,882
Non-current assets	3,178,741
Current liabilities	1,774,678
Non-current liabilities	629,539
Net current liabilities	(408,796)
Net assets	2,140,406

As at 31 December 2018, the Target Companies recorded net assets of approximately HK\$2,140.4 million, while the net current liabilities of the Group amounted to approximately HK\$408.8 million. We noted that the significant increase in net assets over the previous year primarily due to the increase in property, plant and equipment of approximately HK\$366.2 million.

4.2 The Determination of the Target Selling Price

The Target Selling Price will be determined according to the following formula:

Target Selling Price = Preliminary Selling Price - Debt - Estimated amount due to suppliers and other payables + Cash and receivable balance, whereas:

“**Debt**” means the actual amount of indebtedness of each of the Target Companies as of the Closing Accounts Date.

“**Estimated amount due to suppliers and other payables**” means the aggregate of (a) the estimated amount of payments due to third-party suppliers by each of the Target Companies and (b) other payables in connection with the construction of the solar farm projects under the Target Portfolio as of the Closing Accounts Date.

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“Cash and receivable balance” means the aggregate of the cash and other receivable balance of each of the Target Companies as of the Closing Accounts Date.

The Company has not engaged any independent third party to conduct valuation of the solar farm projects under the Target Portfolio as the Target Selling Price has been determined on an arm’s length basis with reference to 25 comparable solar farm transactions in the PRC completed during the period from 2015 to 2018 with solar farm capacity ranging from 20 MW to 200 MW. The enterprise value/capacity ratio in these transactions was in the range between RMB 4.11 per watt and RMB 11.23 per watt and the average enterprise value/capacity was RMB 8.14 per watt. The Preliminary Selling Price implies an enterprise value/capacity of RMB 7.58 per watt which is within the range of the comparable solar farm transactions in the PRC and is below the average enterprise value/capacity ratio of the comparable solar farm transactions.

In assessing the fairness and reasonableness of the determination of the Preliminary Selling Price, we have considered the following:

- (i) unit price per unit of electricity of comparable transactions in respect of sale and purchase of solar farms; and
- (ii) the P/EBITDA Ratios and P/B Ratios of Industry Comparables.

In assessing the fairness and reasonableness of the Preliminary Selling Price, and given that the construction of the solar farm projects under the Target Portfolio has been completed and all of them are grid-connected, we have made reference to recent comparable transactions in respect of sale and purchase of solar farms which are (i) located in the PRC; (ii) with capacity ranging from 20 MW to 200 MW; (iii) acquired or disposed by companies listed in Hong Kong; (iv) related to the acquisition or disposal of solar farm(s) or the entire equity interest of the entity owning the solar farm(s) and the construction of which has/have been completed; and (v) constituted a notifiable transaction as defined under the Listing Rules and were publicly announced during the period from 1 January 2018 and up to the Latest Practicable Date, which in our view represents a reasonable period to reflect recent market conditions for entering into such transactions. To the best of our knowledge and on a best-effort basis, we have identified a list of seven comparable transactions (the “**Target Comparables**”) which fit the aforesaid criteria. Taking into account (i) the respective considerations for the underlying solar farm projects were referenced to, among others, the approved capacities thereof being a key component of the revenue generated from the sale of electricity of such solar farms; and (ii) the comparison of unit prices of electricity, which were computed based on the respective considerations of completed solar farm projects divided by the approved capacities thereof, we are of the view that the analysis of the unit price per unit of electricity of the Target Comparables against that of the Target Portfolio as derived from the Preliminary Selling Price of RMB4,090.8 million and the aggregated approved capacity of 540 MW is appropriate. Set out below (“**Table 4**”) is a summary of the Target Comparables.

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Table 4: A summary of the Target Comparables

Company name	Stock code	Date of announcement	Capacity of solar farm (MW)	Consideration (Note 1) (RMB million) approximate	Unit price (Note 2) (RMB/watt) approximate	Portion of consideration to be settled prior to and including the date of completion (Note 3) (%) approximate
Kong Sun Holdings Limited	295	28 March 2019	30	109.7	3.7	0.0
Panda Green Energy Group Limited. . .	686	20 March 2019	82.5	297.0 ^(Note 4)	3.6	99.5
Kong Sun Holdings Limited	295	24 December 2018	50	134.9	2.7	0.0
Panda Green Energy Group Limited. . .	686	17 May 2018	20	177.9	8.9	90.0
Beijing Enterprises Clean Energy Group Limited. . .	1250	18 April 2018	100	1,099.7	11.0	0.0
Beijing Enterprises Clean Energy Group Limited. . .	1250	18 April 2018	20	251.0	12.6	0.0
				Maximum	12.6	99.5
				Minimum	2.7	0.0
				Average	7.1	31.6
				Median	6.3	0.0
The Target Portfolio ^(Note 5) . .			540	4,090.8	7.6	50.0

Sources: Stock Exchange

Notes:

- The consideration comprised (i) the consideration for the sale shares of the target companies owning the solar farm projects; (ii) any shareholder's loan provided to the Target Companies; and (iii) any liabilities due by/outstanding capital contribution to the target companies assumed by the purchasers in connection with the transactions, as disclosed in the relevant announcements of the Target Comparables.
- The implied unit prices of the solar farms under the Target Comparables were computed by dividing the aggregate consideration by the approved capacity of the underlying solar farm.

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3. The payment arrangement of the consideration included the settlement of consideration for the sale shares and shareholder's loan (if any) and the settlement of the liabilities/outstanding capital contribution assumed.
4. The consideration is translated from GBP to RMB at the exchange rate of GBP1.0000 to RMB8.7227.
5. The implied unit price of the Target Portfolio was computed by dividing the Preliminary Selling Price of RMB4,090.8 million by its aggregate capacity of 540 MW.

As shown in Table 4 above, the unit price of the Target Comparables ranged from approximately RMB2.7 per watt to approximately RMB12.6 per watt with an average of approximately RMB7.1 per watt and a median of RMB6.3 per watt. The implied unit price of the Target Portfolio of approximately RMB7.6 per watt therefore falls within the range of the Target Comparables and is higher than both the average and median unit price of the Target Comparables.

In assessing the fairness and reasonableness of the Preliminary Selling Price, considering that the subsidiaries of the Target Companies are principally engaged in the operation and management of solar farm projects comprising the Target Portfolio, as set out in Table 2 in the above sub-section headed "3.3 Valuation of Xinyi Energy", we have conducted comparison of the P/EBITDA Ratio and P/B ratio of the Target Companies as implied by the Preliminary Selling Price of RMB4,090.8 million (the "**Implied Target P/EBITDA Ratio**" and the "**Implied Target P/B Ratio**"), against the P/EBITDA Ratios and P/B Ratios of comparable companies with principal business similar to those under the Target Companies, i.e. the Industry Comparables.

The Implied Target P/EBITDA Ratio of approximately 9.0 is calculated by dividing the Preliminary Selling Price of RMB4,090.8 million (equivalent to HK\$4,765.0 million) by the combined earnings before taxes, interest, depreciation and amortization of each of the Target Companies for the year ended 31 December 2018 of HK\$530.9 million. As seen from the Industry Comparables in Table 2, it is noted that the Implied Target P/EBITDA Ratio of approximately 9.0 times is within the range of P/EBITDA Ratios from approximately 0.8 times to 29.4 times, and higher than the average of approximately 8.4 times and the median of approximately 1.6 times as represented by the Industry Comparables.

The Implied Target P/B Ratio of approximately 2.2 times is calculated by dividing the Preliminary Selling Price of RMB4,090.8 million (equivalent to HK\$4,765.0 million) by the combined equities attributable to owners of each of the Target Companies for the year ended 31 December 2018 of approximately HK\$2,140.4 million. As seen from the Industry Comparables in Table 2, it is noted that the Implied Target P/B Ratio of approximately 2.2 times is within the range of P/B Ratios from approximately 0.2 times to 2.9 times, higher than the average of approximately 1.1 times and median of approximately 0.7 times as represented by the Industry Comparables.

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Furthermore, upon discussion with the Group, we noted that the Preliminary Selling Price only represents the valuation of the Target Portfolio immediately after completion of the construction and grid connection, while the Target Selling Price comprises the Preliminary Selling Price, and adjustment with indebtedness and working capital of the Target Companies as at the Closing Accounts Date. In determining the Target Selling Price, the rationale behind the adjustment of indebtedness, amounts due to suppliers, other payables, and cash and receivable balances is to ensure all significant assets and liabilities of the Target Companies as at the Closing Accounts Date are taken into account, hence we consider this approach is appropriate in the determination of the Target Selling Price as at the Closing Accounts Date.

Given that (i) the implied unit price of the Target Portfolio of approximately RMB7.6 per watt falls within the range of the Target Comparables; (ii) the Implied Target P/EBITDA Ratio of approximately 9.0 times is within the range of P/EBITDA Ratios and higher than the average and median of P/EBITDA Ratios as represented by the Industry Comparables; and (iii) the Implied Target P/B Ratio of approximately 2.2 times is within the range of P/B Ratios and higher than both the average and median of P/B Ratios as represented by the Industry Comparables, we consider that the Target Selling Price (including the Preliminary Selling Price and the determination formula thereof) for the Proposed Target Disposal is fair and reasonable.

4.3 Payment of the Target Selling Price

Pursuant to the Target Sale and Purchase Agreement, an upfront payment of 50% of the Target Selling Price shall be settled upon completion of the Proposed Target Disposal which is expected to take place within one month from the XYE Listing Date and the outstanding amount will be fully settled on the earlier of (a) the fourth anniversary of the XYE Listing Date which is currently expected to be in the second half of 2023 and (b) by instalments following the receipt of the tariff adjustment relating to the electricity generated by the solar farm projects under the Target Portfolio. As such, it is noted that in any event, Xinyi Energy shall settle the outstanding balance of the Target Selling Price on or before the fourth anniversary of the XYE Listing Date. We have enquired with the Company regarding the instalment pattern and the rationale for the maximum settlement period of four years from the XYE Listing Date and were given to understand that such payment arrangement was designed to match with the expected receipt of the delayed tariff adjustment from the PRC Government. Also, for solar farm operators to receive the tariff adjustment, the solar farm projects must be enlisted on the Subsidy Catalogue in the PRC. Following the enlisting, the solar farm operators will in principle be entitled to receive the tariff adjustment due from the commencement of grid connection onwards and previously booked from grid connection date and up to the enlisting date.

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Upon discussion with management of the Company, we understood the historical settlement period of the Feed-in-Tariff incurred on the solar farm projects of the Initial Portfolio, and set out below (“**Table 5**”) shows the comparison of the period from the dates of grid connection to the receipts of first batch of tariff adjustment:

Table 5: A summary of the historical settlement period of the Initial Portfolio

Solar Farm	Batch of the Subsidy Catalogue	Date of grid connection	Receiving date of first batch of tariff adjustment	Time interval (months)
Jinzhai Solar Farm	Sixth batch	September 2014	November 2016	26
Sanshan Solar Farm	Sixth batch	November 2014	November 2016	24
Nanping Solar Farm	Seventh batch	March 2015	September 2018	42
Lixin Solar Farm Phase 1/2	Seventh batch	September 2015	September 2018	36
Lixin Solar Farm Phase 3	Seventh batch	January 2016	September 2018	32
Wuwei Solar Farm	Seventh batch	October 2015	September 2018	35
Hong’an Solar Farm Phase 1	Seventh batch	October 2015	September 2018	35
Hong’an Solar Farm Phase 2	Seventh batch	January 2016	September 2018	32
Fanchang Solar Farm Phase 1	Seventh batch	December 2015	September 2018	33
Fanchang Solar Farm Phase 2	Seventh batch	January 2016	September 2018	32
Shouxian Solar Farm	Seventh batch	December 2015	September 2018	33
Binhai Solar Farm	Seventh batch	March 2016	September 2018	30
			Average	32.5
Target Sale and Purchase Agreement				48

As shown in Table 5 above, we noted that in general, approximately 32.5 months was required for the solar farm operators under the Initial Portfolio to receive the first batch of tariff adjustment which incurred from the date of grid connection. As at the Latest Practicable Date, one of the six solar farm projects under the Target Portfolio, namely Huainan Solar Farm, has been enlisted on the seventh batch of the Subsidy Catalogue.

With respect to the payment of 50% of the Target Selling Price to be received by the Remaining Group upon completion of the Proposed Target Disposal, we have performed independent research on recent sale and purchase of solar farm projects conducted by listed companies in Hong Kong. Based on our review on the Target Comparables as shown in Table 4 in the above sub-section headed “4.2 The Determination of the Target Selling Price”, we noted that the settlement of consideration underlying all the Target Comparables are by instalments. In particular, it is noted that the mean of settlement amount prior to/upon completion of transactions amounted to 27.1% of total consideration, while the remaining balance would be settled by tranches subject to different respective conditions. As such, we are of the view that the settlement of 50% of the Target Selling Price upon completion of the Proposed Target Disposal is relatively favourable.

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On the other hand, based on our review of recent sale and purchase of solar farms conducted by the Target Comparables, it is noted that the timing on which the tranches of payment to be made depends on (i) the receipt of subsidies for the specific financial year and (ii) the underlying project being included in the Subsidy Catalogue. Accordingly, we are of the view that the rationale behind the settlement arrangement by instalments of the expected receipt schedule of the subsidy is not uncommon in the PRC solar farm industry.

In view that (i) the historical settlement period of the subsidy portion of Xinyi Energy generally takes more than two years and the proposed four years settlement period of the Target Selling Price would act as a buffer in case of the expected delayed settlement schedule of subsidy from the PRC Government; (ii) the Company as a controlling shareholder of Xinyi Energy would continue to enjoy the financial benefits generated from the business activities of the Xinyi Energy Group; and (iii) such payment arrangement could ensure that the Remaining Group will receive 50% of the Target Selling Price upon completion of the Proposed Target Disposal and the full payment of the outstanding amount of the Target Selling Price by the fourth anniversary of the XYE Listing Date, we consider that the payment arrangement under the Target Sale and Purchase Agreement is fair and reasonable.

Based on above, we consider that the Target Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4.4 Intended Use of Proceed from Proposed Target Disposal

Pursuant to the Target Sale and Purchase Agreement, the Company will dispose of the entire interests of the Target Companies to Xinyi Energy at the Target Selling Price. As stated in the Letter from the Board, assuming that the market capitalisation of the Xinyi Energy Group would be in the range of between HK\$12.5 billion and HK\$15.6 billion and based on the financial information of the Target Companies as at 31 December 2018, the Company would receive the Target Selling Price of approximately RMB3.2 billion (equivalent to approximately HK\$3.7 billion (“**Target Proceeds**”). The Remaining Group will use the Target Proceeds for the following purposes:

- approximately 45% of the Target Proceeds of approximately HK\$1.7 billion for providing partial financing for the construction of new production capacity for the Solar Glass Business;
- approximately 45% of the Target Proceeds of approximately HK\$1.7 billion for providing partial financing for the construction of utility-scale ground-mounted solar farm projects (including the pipeline solar farm projects) under the Solar Farm Development Business; and
- approximately 10% of the Target Proceeds of approximately HK\$0.3 billion for its general working capital.

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Pursuant to the Solar Farm Agreement, the Remaining Group will dispose of Covered Projects to the Xinyi Energy Group pursuant to the Solar Farm Call Option or the Solar Farm ROFR. The Company will receive the proceeds pursuant to the Solar Farm Agreement. Subject to the business and financial condition of the Group from time to time, the Company intends to use the proceeds primarily for the construction of utility-scale ground-mounted solar farm projects and solar glass production lines.

Upon completion of the Proposed XYE Listing, we noted that the Remaining Group plans to allocate a significant portion of the Target Proceeds to the expansion of the Solar Glass Business and the Solar Farm Development Business. According to the 2018 Annual Report, we noted that (i) the revenue from the Solar Glass Business segment amounted to approximately HK\$5,562.3 million for the year ended 31 December 2018, which represents a decrease of approximately 3.2% as compared to approximately HK\$5,746.4 million for the year ended 31 December 2017; (ii) the aforementioned revenues represent approximately 60.3% and 72.5% of the total revenue of the Group for the year ended 31 December 2017 and 2018 respectively; and (iii) the sales of solar glass to overseas market (outside of the PRC) showed a significant year-on-year growth of approximately 16.1% for the year ended 31 December 2018. The management of the Group has advised that, despite the decline in revenue of the Group's Solar Glass Business in 2018 as a result of intense market competition and drop of solar glass price, the Solar Glass Business remains as the Group's core revenue-generating business and the management is confident that the Group can leverage on its expertise in solar glass to expand its market shares in both the domestic and overseas markets.

We noted that the strong growth in the Solar Glass Business in the overseas markets was a result of the Group's initiative in expanding the overseas markets since 2017, when the Group's first overseas production line commenced operation with a melting capacity of 900-tonne per day in Malaysia. In order to support its overseas market expansion and reinforce its position as a leading solar glass manufacturer, the Group has (i) implemented a trial run of a new 1,000-tonne/day solar glass production line in Malaysia; (ii) resumed operation of the 500-tonne/day solar glass production line in Tianjin which had been suspended since March 2018 for repairs and modification; and (iii) planned to further expand solar glass production capacity in the PRC.

For our due diligence purposes, we have researched into the global solar glass business and PV market outlook. According to "2018 Snapshot of Global Photovoltaic Markets" 《2018年全球光伏市場調查》, published by the International Energy Agency (the "IEA") in April 2018, an intergovernmental organisation established within the framework of the Organisation for Economic Co-operation and Development (the "OECD") which provides information and statistics on the international energy market, the global PV market has grown significantly from 76 gigawatt ("GW") of new PV systems installed and connected to the grid in 2016 to 98GW in 2017, which represents a 29% growth year-on-year. It is noteworthy that among the global PV installation capacity of 98GW in 2017, China accounts for 54% of such capacity, and Asia is the leader of the global PV market in terms of both PV systems installed and growth. Therefore, we concur with the Directors that there will be strong demand across the globe, in particular, in Asia, on the PV products as PV is becoming a major contributor in clean energy as the report indicated.

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Having considered that (i) the solar glass business continues to be the core and revenue-generating business for the Remaining Group; and (ii) both domestic and overseas markets exhibit strong demand on solar glass and the overall positive outlook of the global solar glass industry, we concur with the Directors that it is fair and reasonable for the Company to invest and expand its Solar Glass Business production capacity in accordance to its development plan in light of the positive market trend on growing demand of solar glass products.

On the other hand, we noted that the Remaining Group will utilise a significant portion of the remaining Target Proceeds for construction and development of the pipeline solar farm projects. As at the Latest Practicable Date, there were ten pipeline solar farm projects with an aggregate capacity of 850 MW with expected completion in 2019 and 2020. The construction works of these pipeline solar farm projects are in progress as at the Latest Practicable Date, and such large-scale construction works rely on the Company's cashflow and a portion of the Target Proceeds is needed to fund part of the construction. According to the PHIP, we understand that the construction of the pipeline solar farm projects will be substantially completed and grid connected by 2019 or 2020, and subsequently, sell to Xinyi Energy at the Call Right Price upon the exercise of the Solar Farm Call Option or subject to the Solar Farm ROFR to be granted to Xinyi Energy during the term of the Solar Farm Agreement, the Company could recognize gain in such disposal and offload the aforementioned burden on the Company's cashflow.

The development of solar industry in China was highlighted in various national development schemes in recent years. With reference to "the Strategic Action Plan for Energy Development (2014-2020)" 《能源發展戰略行動計劃(2014-2020年)》 released by the General Office of the State Council of the PRC in June 2014, a list of targets were published to promote more efficient, self-sufficient, green and innovative energy production. In addition, according to "the Notice on the 13th Five-Year Work Plan of the PRC on Enhancing the Solar Energy Development by the Comprehensive Department of the NEA" 《國家能源局綜合司關於做好太陽能發展「十三五」規劃編製工作的通知》 issued by the NEA in December 2014, solar industry was again illustrated as an important industry development focus during the period of the 13th Five Year Work Plan of the PRC. According to the 13th Five-Year Plan, the NEA has increased the targeted solar power capacity to 105 GW by the end of 2020. As proposed by China National Renewable Energy Centre in the context of "China Renewable Energy Outlook" 《2018中國可再生能源展望》 in October 2018, it is suggested that the target total solar PV generation capacity in the PRC by 2020 to be revised from 200 GW to 224 GW.

According to our research, the NDRC, the Ministry of Finance, and the NEA released the "Notification on Certain Matters on Solar Power Industry (2018)" 《2018年光伏發電有關事項通知》 ("2018 Notice") in May 2018, which indicated that (i) the Feed-in-Tariff rates for the solar farm projects which were grid-connected after 30 June 2018 have been reduced, and (ii) the PRC Government would not approve the construction of new ground-mounted solar farm projects under the national quota system in 2018. Subsequent to the publication of the 2018 Notice, the NEA released the "Manuscript on interview with respect to the 2018 Notice" 《國家能源局新能源司和國家發展改革委價格司負責同志就《關於2018年光伏發電有關事項的通知》答記者問》 on 1 June 2018 addressing the inquiries from the media relating to the 2018 Notice. The interview explained that in view of the rapid increase in PV installations and energy generated from solar, there are not enough transmission capacity to deliver the new power to consumers, a problem known as curtailment. In response to this issue, the government has decided to halt the construction of new solar farm projects under the

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national quota systems. Yet, the official further noted that the PRC Government remained supportive and decisive on its energy target, and the terms outlined in the 2018 Notice was by no mean in restricting the growth of the PV market. In light of these announcements from the NEA, the management of the Company considers that the negative impact from halting new solar farm projects was only temporary and that they are confident that the PRC Government will continue to move forwards its energy target goal once the transmission capacity is improved.

The NDRC and the NEA jointly published the 2019 Grid Parity Notice in January 2019, which indicated that (i) the construction of new utility-scale ground-mounted solar farm projects would not be subject to the national quota system in the PRC; and (ii) the construction of renewable energy projects will implement the benchmark price for coal power and the construction of pilot renewable energy projects will sell at a price lower than the coal benchmark. Given that the solar farm projects to be constructed under the 2019 Grid Parity Notice would not be entitled to receive the tariff adjustment, the Directors are of the view that there would be a substantial decrease in revenue generated from projects constructed subsequent to the implementation of the 2019 Grid Parity Notice. Furthermore, the NDRC released the 2019 Second Notice (as defined in the PHIP) in April 2019, which indicated that the Feed-in-Tariff rates for newly-operated utility-scale ground-mounted solar farm projects with grid connection commencing after 1 July 2019 in resource zone I, II and III would be lowered to RMB 0.40/kWh, RMB 0.45/kWh, and RMB 0.55/kWh respectively (tax included). The 2019 Second Notice provides that the subsidy standard for newly-operated distributed solar power projects shall be suitably lowered. Nevertheless, in view of (i) only one out of ten of the pipeline solar farm projects (the Chaohu Jindao Solar Farm) in the Remaining Group is not entitled to receive tariff adjustment (with a capacity of 20MW out of 850MW aggregate capacity, accounting approximately 2.4% of the aggregate capacity); (ii) the decreasing trend of the production and installation costs of solar power components may mitigate the negative impact of the notices; (iii) as advised by the management of the Company, the Company has been in the process of planning to develop independent solar farm projects that are not aimed to receive subsidy from the PRC Government in reinforcing the Group's independence and minimizing the Group's reliance on the PRC Government and its policies, we are of the view that the potential of negative impact from the implementation of the 2019 Grid Parity notices could be mitigated.

Having consider that (i) the solar energy industry has become more established and been considered as a top renewable energy choice among policymakers around the globe; (ii) despite the publication of the 2018 Notice which presents a setback to the development of new solar farm projects, an PRC government official has clarified that such setback is only temporary due to the lack of transmission capacity and that the government's objective and supports on solar energy target goal remains unchanged; (iii) most of the pipeline solar farm projects of the Remaining Group are entitled to receive tariff adjustment; (iv) the decrease in cost of production and installation of solar power components would offset the negative impact of decrease in tariff adjustment entitlement; and (v) the Remaining Group has been in the process of developing new independent non-subsidized solar farm projects to reinforce the Group's independence and minimize the Group's reliance on the PRC government and its subsidies, we consider that the allocation of a portion of the Target Proceeds in the Solar Farm Development Business is fair and reasonable.

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4.5 Possible Financial Effects of the Proposed Spin-Off and the Proposed Target Disposal

Earnings

Upon the completion of the Proposed Spin-Off and the Proposed XYE Listing, the Company's interest in Xinyi Energy will be reduced from 75% to 53.7%. Xinyi Energy will continue to be a non-wholly owned subsidiary of the Company and each of the Target Companies will be indirectly held by the Company through its shareholding in Xinyi Energy. As a result, contributions from Xinyi Energy and the Target Companies towards the Company's consolidated net assets and profit/loss attributable to the Shareholders will decrease, while the net assets and profit/loss attributable to non-controlling interests will increase accordingly. Further, each of the Target Companies will continue to be accounted for as non-wholly owned subsidiaries of the Company upon the completion of the Proposed Spin-Off and the Proposed Target Disposal, the deemed disposal of Xinyi Energy and the disposal of Target Companies are equity transactions, and therefore no gain or loss will be reported in the Company's consolidated income statements.

Net Asset Value

Based on the 2018 Annual Report, the consolidated net assets of the Group as at 31 December 2018 amounted to approximately HK\$12.1 billion. The expected market capitalisation of Xinyi Energy upon completion of the Proposed XYE Global Offering is estimated to be in the range of approximately HK\$12.5 billion to HK\$15.6 billion. As the value of the shares of Xinyi Energy and Target Companies as at 31 December 2018 are estimated to be above their net asset value amounted to approximately HK\$6,405.7 million and HK\$2,140.4 million respectively, and in view that Xinyi Energy will receive the expected net proceeds in the range of approximately HK\$3.4 billion to HK\$4.3 billion from the Proposed XYE Global Offering and the Company will receive approximately RMB3.2 billion (subject to the Debt, Estimated amount due to suppliers and other payables, and Cash and receivable balance as of the Closing Accounts Date), it is expected that the consolidated net asset value of the Group will increase following the Proposed Spin-Off and the Proposed Target Disposal.

Gearing Ratio

Based on the 2018 Annual Report, the net debt gearing ratio of the Group as at 31 December 2018 was approximately 66.2%, as derived by the amount of bank borrowings less cash and cash equivalents divided by total equity. It is expected that the Group's net gearing ratio will reduce due to (i) the net proceeds to be raised from the Proposed XYE Global Offering and the Proposed Target Disposal; and (ii) the expected increase in net asset value of the Group upon completion of the Proposed Spin-Off and the Proposed Target Disposal.

Cashflow

Based on the 2018 Annual Report, the Group's cash and cash equivalents amounted to approximately HK\$783.9 million as at 31 December 2018. Given Xinyi Energy will remain as a subsidiary of the Company following the Proposed Spin-Off and its assets and liabilities will continue to be consolidated into the accounts of the Group, it is expected that the expected net proceeds to be raised from the Proposed XYE Global Offering ranged of approximately HK\$3.4 billion to HK\$4.3

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billion will enhance the liquidity and working capital position of the Group. Since Xinyi Energy will continue to be a non-wholly owned subsidiary of the Company upon the completion of the Proposed Spin-Off and the Proposed Target Disposal is an intra-group transaction which will be eliminated in full on consolidation, it does not have any material impact on the cashflow of the Group.

Based on the above analysis, it is expected that the Proposed Spin-Off and the Proposed Target Disposal would have positive impact on net asset value, gearing position and cashflow and a neutral impact to the Group's earning. Moreover, after taking into consideration the benefits as discussed in sub-sections headed "2.1 Reasons for and Benefits of the Proposed Spin-Off and the Proposed XYE Listing", "2.2 Reasons for and Benefits of the Proposed Target Disposal and the Solar Farm Agreement", "3.1 Intended Use of Proceeds of the Proposed Spin-Off" and "4.4 Intended Use of Proceed from Proposed Target Disposal" above, we are of the view that the Proposed Spin-Off and the Proposed Target Disposal are in the interests of the Group and the Shareholders as a whole.

5. Deed of Non-Competition

In order to ensure clear business delineation and regulate the relationship between the Remaining Group and the Xinyi Energy Group, the Deed of Non-Competition has been entered into by each of the XYE Controlling Shareholders and the XYE Executive Directors (collectively, the "Covenators") in favour of the Xinyi Energy. We have obtained and reviewed the Deed of Non-Competition and we noted that the Covenators have undertaken not to directly or indirectly, carry on or be engaged or interested in any business activities in competition with or likely to be in competition with the Xinyi Energy Group, hence the Group is prohibited in carrying the Solar Farm Operation Business. The Covenators has also undertaken that should there be any new business opportunity relating to any of the products and/or services of the Xinyi Energy Group in the PRC (the "Business Opportunity") made available to the Covenators or their respective associates, the Covenators shall direct or procure the respective associate to direct such Business Opportunity to the Xinyi Energy Group and shall not pursue such opportunity unless the independent non-executive directors of Xinyi Energy have resolved to decline such opportunity on a case-by-case basis and have notified in writing of their decisions with relevant reasons.

Further, as set out in the "Letter from the Board" contained in the Major Transaction Circular, we noted that the Remaining Group has implemented some corporate governance measures in order to avoid conflict of interests between the Remaining Group and the Xinyi Energy Group, in particular:

- (a) *the annual review*: the Controlling Shareholders and its associates shall, with their reasonable endeavours, provide all information necessary to the independent non-executive Directors for their annual review on the compliance with and enforcement of the terms of the Deed of Non-Competition;
- (b) *disclosure of corporate decisions relating to the Deed of Non-Competition*: the Company will disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to the compliance with and enforcement of the undertakings of the Controlling Shareholders under the Deed of Non-Competition through (i) the annual or interim report of the Company, or (ii) corporate announcements to the public;

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- (c) *disclosure of compliance of the Deed of Non-Competition*: the Company will disclose in the corporate governance report of its annual report on how the terms of the Deed of Non-Competition have been complied with and enforced; and
- (d) *disclosure of interests of the Directors*: in the case that there is any conflict of interest in the operations of the Remaining Group and the Xinyi Energy Group, and in respect of any proposed contracts or arrangements between the Remaining Group and the Xinyi Energy Group, any Director who is considered to be interested in a particular matter or the subject matter, shall disclose his/her interests to the Board. Pursuant to the articles of association of the Company, if a Director or his/her close associate has any material interests in the matter (other than certain matters permitted under note 1 to Appendix 3 to the Listing Rules), he/she shall not vote on the resolutions at the meeting of the Board approving the same and shall not be counted in the quorum of the relevant meeting.

Upon our review on the major terms under the Deed of Non-Competition and, having considered (i) the Deed of Non-Competition enhances clear business delineation between the Remaining Group and the Xinyi Energy Group and restricts any potential competition between the Remaining Group and the Xinyi Energy Group upon the Proposed XYE Listing; and (ii) there will be corporate governance measures to be adopted by the Remaining Group to avoid conflict of interests between the Remaining Group and the Xinyi Energy Group, we are of the view that the entering into the Deed of Non-Competition is fair and reasonable.

6. Solar Farm Agreement

Following completion of the Proposed Spin-Off and the Proposed XYE Listing, the Company will enter into the Solar Farm Agreement with Xinyi Energy whereby Xinyi Energy will be granted the Solar Farm Call Option and the Solar Farm ROFR to acquire the completed solar farm projects developed or constructed by the Remaining Group.

6.1 Call Right Price

Pursuant to the Solar Farm Agreement, the Call Right Price for the Call Right Assets (as defined on the Major Transaction Circular) shall be the greater of (a) and (b) as set out below:

- (a) (Adjusted EBITDA during Designated 12-month of Operation + Sales revenue VAT) x Implied Multiple; and
- (b) such amount representing one hundred ten percent (110%) of the actual reasonable and documented construction costs of such Call Right Asset.

As disclosed in the “Letter from the Board” contained in the Major Transaction Circular, the Implied Multiple shall be 7.2 which is based on the “Adjusted EBITDA + Sales revenue VAT” (the “**EBITDA+VAT Multiple**”) of the Target Portfolio and the valuation of the Target Portfolio of approximately RMB4,090.8 million with reference to valuation of 25 comparable solar farm transactions in the PRC completed during the period from 2015 to 2018 with solar farm capacity ranging from 20 MW to 200 MW. If the Company and Xinyi Energy are unable to agree on any of the basis of the Call Right Price, including any of the pricing variables and the Implied Multiple in the

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above formula set forth in the Solar Farm Agreement, within 90 days from the date of the relevant call right notice, the Company and Xinyi Energy may engage a third-party advisor in the capacity as an expert to determine such pricing variables and the Implied Multiple. The cost of engaging such third-party advisor shall be borne by the Company and Xinyi Energy in equal shares.

In assessing the fairness and reasonableness of the determination of the Call Right Price, we have obtained from the Company and reviewed the breakdown (the “**Call Right Price Breakdown**”) in arriving the Implied Multiple of the Target Portfolio. We noted that the Implied Multiple is derived by dividing the valuation of the Target Portfolio of approximately RMB4,090.8 million to the EBITDA+VAT Multiple, while the EBITDA+VAT Multiple are determined based on (i) the expected revenue (the “**Expected Revenue**”) which is the product of (a) the aggregate approved capacity of the Target Portfolio of 540 MW; (b) the weighted average of the Feed-in-Tariff of each solar farm project based on the approved capacity; and (c) the weighted average of the annual utilisation hours of each solar farm project based on the approved capacity; (ii) the deduction of estimated Sales Revenue VAT; and (iii) the deduction of estimated operating expense.

We have reviewed the fairness and reasonableness of the assumptions adopted in arriving the EBITDA+VAT Multiple of the Target Portfolio. Based on our review on the Call Right Price Breakdown and the certificate of the solar farm projects comprising the Target Portfolio provided by the Company, we noted that each of the approved capacity and Feed-in-Tariff of the solar farm projects under the Target Portfolio is consistent with the approved capacity and Feed-in-Tariff rate underlying the relevant projects as approved by the price bureau, or, if pending approval, submitted by the Company to the price bureau in the respective provinces. Considering that such solar farm projects with the approved capacity and Feed-in-Tariff rate pending approval have completed construction and are grid-connected, the Company is of the view that based on the latest project development plan and the relevant government policies, the final approved Feed-in-Tariff rates of such projects will not be materially different from the estimated rates and therefore we consider the adoption thereof justifiable.

With respect to the estimated annual utilisation hours of the solar farm projects, we have made reference to the average annual utilisation hours of the solar farms under the Target Portfolio which are located in Hubei Province, Henan Province and Anhui Province. With reference to the PHIP and based on the industry overview report (the “**IO Report**”) prepared by K2 Management, an independent market research and consulting company in connection with the Proposed XYE Global Offering, we noted that such provinces are classified as Resource Zone III and the annual effective utilisation hours of utility-scale ground-mounted solar farm projects in the aforesaid provinces ranged from 900 hours to 1,200 hours. Accordingly, the estimated annual utilisation hours of the solar farms under the Target Portfolio fall within the industry range which, in our view, are fair and reasonable.

The Sales Revenue VAT of 13% has been adopted in arriving the EBITDA of the Target Portfolio which is in line with the latest value-added tax of the industry according to the “Announcement on Relevant Policies for Deepening Value-Added Tax Reform”《關於深化增值稅改革有關政策的公告》 issued by the PRC Ministry of Finance, State Administration of Taxation and General Administration of Customs in March 2019.

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In respect of the estimated operating expenses in arriving the EBITDA multiple of the Target Portfolio, we noted that 5% of the revenue (excluding Sales Revenue VAT) was adopted. With reference to the PHIP, we noted that operating expenses which was based on the total expenses of the Target Portfolio net of non-cash expenses and non-recurring expenses for the relevant year, amounted to approximately HK\$5.4 million, HK\$19.1 million and HK\$18.4 million for the three years ended 31 December 2016, 2017 and 2018 respectively. Upon comparison of the operating expenses against the revenue (net of Sales Revenue VAT) of the Target Portfolio for the respective years, we noted that the operating expenses accounted for approximately 6.2%, 5.7% and 3.4% of the revenue for the three years ended 31 December 2016, 2017 and 2018, respectively. Given the estimation of operating expenses based on 5% of the revenue generated from the Target Portfolio falls within the range of the corresponding ratios for the three years ended 31 December 2016, 2017 and 2018, we are of the view that the estimation of operating expenses was made on reasonable ground. Based on the foregoing, we consider that the Implied Multiple of 7.2 (as derived from the “EBITDA + Sales Revenue VAT” of the Target Portfolio and the Preliminary Selling Price) is fair and reasonable.

In assessing the fairness and reasonableness of the Cost-Plus Pricing for disposal of completed solar farm projects under the Solar Farm Agreement, we have attempted to make reference to the historical transactions entered into between the Group as seller and independent third parties as purchaser. However, we understood from the management that the Group had not entered into any such agreements with independent third parties. We have therefore conducted public research on the pricing of solar farm transactions. On a best-effort basis, we have attempted to identify transactions in respect of disposal of solar farm whereas the consideration of relevant solar farm assets and gain on disposal were disclosed. In this regard, we have identified transactions from the website of the Stock Exchange, which (i) involved and recognised a gain in disposal of solar farm(s) or the equity interest of the entity owning the solar farm(s); (ii) the construction of the relevant solar farms were completed; and (iii) the announcements of the relevant transactions were announced during the period from 1 January 2018 and up to the Latest Practicable Date. However, we have identified only two comparable transaction in this regard. In order to obtain a reasonable sample size of comparison, we have extended the above selection criteria to include companies listed in the Shanghai Stock Exchange and the Shenzhen Stock Exchange, and we therefore identified a list of six transactions (the “**Disposal Transactions**”) as set out in the table (“**Table 6**”) below.

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Table 6: A summary of the Disposal Transactions

Stock exchange	Stock code	Company	Announcement Date	Gain on disposal (RMB) <i>approximate</i>	Consideration (RMB) <i>approximate</i>	Profit Margin <i>approximate</i>
Hong Kong Stock Exchange	686	Panda Green Energy Group Limited	20/3/2019	15,700,000	296,999,000 ^(Note)	5.3%
Hong Kong Stock Exchange	295	Kong Sun Holdings Limited	24/12/2018	8,000,000	134,846,100	5.9%
Shanghai Stock Exchange	600401	Hareon Solar Technology Co Ltd	23/10/2018	1,300,000	41,300,000	3.1%
Shanghai Stock Exchange	600151	Shanghai Aerospace Automobile Electromechanical Co Ltd	7/9/2018	159,700	15,159,700	1.1%
Shenzhen Stock Exchange	002623	Changzhou Almaden Co Ltd	13/7/2018	88,000,000	366,960,000	24.0%
Shenzhen Stock Exchange	002121	Shenzhen Clou Electronics Co Ltd	27/6/2018	5,000,000	270,829,909	1.8%
					Maximum	24.0%
					Minimum	1.1%
					Average	6.9%
					Median	4.2%
Cost-Plus Pricing						9.1%

Sources: Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange

Note: The consideration is translated from GBP to RMB at the exchange rate of GBP1.0000 to RMB8.7227.

As seen from Table 6 above, the profit margin of the Disposal Transactions, which were calculated by dividing the gain on disposal by consideration, ranged from approximately 1.1% to 24.0% with an average of approximately 6.9% and a median of approximately 4.2%. We noted that assuming the Call Right Price is determined by Cost-Plus Pricing, the Remaining Group would entitle a profit margin of approximately 9.1% which falls into the aforementioned market range and is higher than both the average and median profit margin of the Disposal Transactions. We also understand that the mechanism of the Cost-Plus Pricing would safeguard the interests of the Company as a minimum profit margin is ensured for every disposal of solar plants to the Xinyi Energy Group within the Call Right Period (as defined in the Major Transaction Circular) and added to that the Call Right Price (either determined based on revenue generated or the Cost-Plus Pricing) will be no less favourable to the price offered by independent third parties as stipulated in the Solar Farm Agreement, hence we consider that the determination of the Call Right Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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6.2 Call Right Period and Solar Farm ROFR Period

With reference to the “Letter from the Board” contained in the Major Transaction Circular, Xinyi Energy shall exercise (i) the Solar Farm Call Option to purchase the Call Right Asset (as defined in the Major Transaction Circular) at any time during the Call Right Period, which shall commence on the date that is 90 days prior to the expected completion date of the relevant Call Right Asset and terminating on the expiration date of Call Right Period (the “**Call Right Period Expiration Date**”) which shall fall on the date which is 36 months after the date on which the construction of such Call Right Asset has substantially completed, among others; and (ii) the Solar Farm ROFR to accept the transfer of any completed solar farm project within the ROFR Acceptance Period (as defined in the Major Transaction Circular).

As stated in the “Letter from the Board” contained in the Major Transaction Circular, the Directors are of the view that the duration of the Call Right Period Expiration Date would allow reasonable and sufficient time (i) to facilitate the solar farm projects to be sold to Xinyi Energy in batches instead of on a project-by-project basis which is designed to reduce transaction costs and administrative works that may be incurred by the Remaining Group and the Xinyi Energy Group; and (ii) for the Xinyi Energy Group to perform analysis and evaluation of the solar farm projects, to obtain relevant approval and arrange financing for the exercise of the Solar Farm Call Option. As the Remaining Group will retain the ownership in the utility-scale ground-mounted solar farm projects and the revenue generated therefrom with the operation and management services to be provided by the Xinyi Energy Group under the Solar Farm O&M Agreement, such period of time would not adversely affect the interest of the Company and the Shareholders. The Directors are also of the view that the 90 days period of the ROFR Acceptance Period is reasonable taking into account the time required for conducting due diligence review. On a best-effort basis, we have identified a list of three transactions which involved both the grant of call option and right of first refusal in respect of the sale and purchase of certain target companies/assets as announced by companies listed in Hong Kong, the table below (“**Table 7**”) sets forth the details of respective exercise period of the underlying call options and rights of first refusal:

Table 7: A summary of the exercise period of the underlying call options and rights of first refusal

<u>Company</u>	<u>Stock code</u>	<u>Date of announcement</u>	<u>Call right Period</u>	<u>Right of first refusal Period</u>
Kingboard Chemical Holdings Limited	148	25 May 2006	60 days	Not mentioned
China Automation Group Limited . . .	569	25 January 2018	30 days	10 days
Bracell Limited	1768	25 May 2012	5 years	5 years
Solar Farm Agreement			3 years	90 days

Source: Stock Exchange

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As shown in Table 7 above, we noted that the exercise period of the underlying call options varies from 30 days to five years and rights of first refusal varies from ten business days to five years. Hence given that the duration of the Call Right Period and the ROFR Acceptance Period fall within the aforesaid range, we consider that the lengths of the Call Right Period of three years and the ROFR Acceptance Period of 90 business days are not uncommon in the market. Given that the determination of the Call Right Period and the ROFR Acceptance Period is (i) on arm's length negotiation taking into account the time required for due diligence review and evaluation in respect of the sales of completed solar farm projects by the Remaining Group to Xinyi Energy; and (ii) of common market practice and on normal commercial terms, we consider that the Call Rights Period and the ROFR Acceptance Period is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered that (i) the Implied Multiple was arrived on a justifiable basis using the Preliminary Selling Price and "EBITDA + Sales Revenue VAT" of the Target Portfolio which is fair and reasonable as illustrated in our analysis set out in the above sub-section headed "4. Proposed Target Disposal"; (ii) the Call Right Price under the Solar Farm Agreement would fully compensate the construction costs of the Call Right Assets incurred by the Remaining Group with a profit margin of approximately 9.1%; (iii) the pricing of the solar farms can be determined by a third-party advisor if the Company and Xinyi Energy are unable to agree on any of the basis of the Call Right Price, including any of the pricing variables and the Implied Multiple; and (iv) the duration of the Call Right Period and ROFR Acceptance Period are not an uncommon practice in the market and would allow sufficient time for the preparation to exercise the Solar Farm Call Option and Solar Farm ROFR, we are of the view that the principal terms of the Solar Farm Agreement, including the determination of the Call Right Price and acceptance period of the Call Right Option and the Solar Farm ROFR, are fair and reasonable.

7. Solar Farm O&M Agreement

7.1 Reasons for and Benefits of Entering into the Solar Farm O&M Agreement

The arrangement under the Solar Farm O&M Agreement is part of the business delineation implemented between the Remaining Group and Xinyi Energy Group. The Remaining Group will not engage in the operation and management of solar farm projects upon the XYE Listing while the Xinyi Energy Group is capable in the relevant fields given the expertise and experience possessed by its service teams for provision of such solar farm operation and management services (the "O&M Services"). On the other hand, given that the Covered Projects will be disposed to Xinyi Energy upon the exercise of the Solar Farm Call Option or subject to the Solar Farm ROFR to be granted to Xinyi Energy pursuant to the Solar Farm Agreement, the Remaining Group will require the O&M Services for the Covered Projects prior to such disposal. Accordingly, the ongoing arrangements under the Solar Farm O&M Agreement will enable the Company to secure the O&M Services for the Covered Projects without interruption after the Proposed Spin-Off and the Proposed Target Disposal and will also achieve economies of scale as compared with separate engagements and procurements of the technical support and maintenance services from various third party service providers by the Remaining Group.

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In view that (i) the Solar Farm O&M Agreement will ensure the stability and continuity of the O&M Services provided by Xinyi Energy to the Remaining Group after the Proposed Spin-Off and the Proposed Target Disposal; (ii) Xinyi Energy possesses expertise and experience in providing the O&M Services to the Remaining Group; and (iii) appropriate internal control measures are in place to monitor conduct and ensure compliance of the transactions contemplated under the Solar Farm O&M Agreement. Based on the above, we are of the view that the entering into of the Solar Farm O&M Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7.2 Principal Terms of the Solar Farm O&M Agreement

Pricing Terms

Pursuant to the Solar Farm O&M Agreement, the service fee for the provision of the O&M Services (the “**O&M Service Fee**”) by Xinyi Energy Group for each of the Covered Projects shall be equal to the greater of the amount calculated pursuant to (a) and (b) below:

- (a) If such Covered Projects’ capacity is:
 - (i) less than or equal to 50 MW, an amount equal to 2.0% of the revenue for such Covered Projects during such billing Period (the “**Project Revenue**”), net of any value-added tax; or
 - (ii) greater than 50 MW, an amount equal to 1.5% of the Project Revenue, net of any value-added tax.
- (b) An amount equals to the sum of the actual costs that Xinyi Energy incurs for performing the O&M Services as contemplated under the Solar Farm O&M Agreement for such Covered Projects (the “**Actual Costs**”) plus a mark-up of 10% of the Actual Costs.

In assessing the fairness and reasonableness of the pricing term (a) above (the “**Revenue-Based Pricing**”) under the Solar Farm O&M Agreement, we have obtained and reviewed three quotations that the Remaining Group received since 1 January 2018 up to the Latest Practicable Date from independent service providers in relation to similar provision of O&M Services (the “**I3P O&M Quotations**”). Upon our review, we noted that the independent third parties charge a service fee of 1.7% to 2.3% of the solar farm’s total revenue for solar farm with capacity ranging from 30 MW to 100 MW. Given nine out of ten pipeline solar farms having capacity from 20 MW to 100 MW, we consider that the I3P O&M Quotations are applicable and relevant for the comparison purposes. We noted that the rates of 1.5% and 2.0% under the Revenue-Based Pricing are close to the range applicable in the I3P O&M Quotations.

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In addition to the quotations provided by the Company, we have conducted an independent research on the pricing terms for transactions of similar nature by companies listed on the Stock Exchange. On a best-effort basis, we have identified a continuing connected transaction announced by GCL New Energy Holdings Ltd. (Stock code: 451) in July 2017 which involved the provision of O&M Services (the “**Relevant Transaction**”) from 1 January 2017 up to the Latest Practicable Date. We noted that the pricing terms under the Relevant Transaction charged a amount of RMB0.100 per watt, net of the applicable value-added tax, for the O&M Services for an aggregate capacity of 353MW grid-connected solar farms in the PRC. However, the details of the revenue generated by these grid-connected solar farms are not disclosed. Hence, in order to perform a comparative analysis, we computed the relevant service fee per watt of electricity generated for the pipeline solar farms. On a conservative basis of 2.0% of the revenue generated from the pipeline solar farms, the O&M Service Fee payable under the Solar Farm O&M Agreement is approximately RMB0.013 per watt, net of the applicable value-added tax, based on the estimated annual O&M Service Fee divided by the estimated annual power generation. Further details on the estimated figures of annual O&M Service Fee and approved capacity of electricity are set out in the section headed “7.3 Proposed annual caps” below. Based on our comparison of the O&M Service Fee with the fee of the Relevant Transaction, we noted such O&M Service Fee of RMB0.013 per watt of electricity generated payable to Xinyi Energy under the Solar Farm O&M Agreement is lower than RMB0.100 per watt of electricity under the Relevant Transaction.

In light of the rates charged under the Revenue-Based Pricing are (i) in line with the rates charged by independent third party generally as evidenced by the I3P O&M Quotations; and (ii) lower than the rate implied under the Relevant Transaction, we are of the view that the Revenue-Based Pricing with rates of 1.5% and 2.0%, depending on the productivity of the solar farm, is favourable to the Group.

In assessing the fairness and reasonableness of the pricing term (b) above (the “**Cost-Based Pricing**”) under the Solar Farm O&M Agreement, we noted that the 10% mark-up on top of the Actual Costs contemplated under the Solar Farm O&M Agreement implies a gross profit margin of approximately 9.1% for the provision of O&M Services. As such, we have conducted an independent research on the segment operating profit margin for the Industry Comparables in respect to the operation and management of solar farms (details are discussed in the above section headed “3.3 Valuation of Xinyi Energy”). However, according to the latest financial information of the Industry Comparables published on the website of the Stock Exchange, we noted that no cost of sales with respect to the operation and management of solar farms was disclosed in the respective annual reports, therefore the segment gross profit margin cannot be calculated for the Industry Comparables. Alternatively, given that the Industry Comparables derive more than 50% of their revenues from the operation and management of solar farms, we consider that the overall gross profit margin of the Industry Comparables can serve as a measure of profitability and is relevant for our assessment. Given that the Industry Comparables own and operate their solar farms while Xinyi Energy will provide the O&M Services to the Group under the Solar Farm O&M Agreement and will not own the Covered Projects until the exercise of the Solar Farm Call Option, the cost structure would be different across the Actual Costs and the Industry Comparables and therefore direct comparison of the gross profit margin can serve as reference only. Set out below (“**Table 8**”) is a summary of the gross profit margin of the Industry Comparables.

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Table 8: A summary of gross profit margin of the Industry Comparables

<u>Company name</u>	<u>Stock code</u>	<u>Principal business</u>	<u>Gross Profit Margin</u>
Kong Sun Holdings Ltd.	295	photovoltaic electricity businesses	59.6%
GCL New Energy Holdings Ltd.	451	solar power plants businesses	66.4%
Panda Green Energy Group Limited . .	686	solar power plants businesses	NA ^(Note)
China Smarter Energy Group Holdings Ltd.	1004	solar energy business	9.6%
		Maximum	66.4%
		Minimum	9.6%
		Average	45.2%
		Median	59.6%
Cost-Based Pricing			9.1%

Sources: Stock Exchange

Note: No gross profit was disclosed in the latest annual report of Panda Green Energy Group Limited, hence the gross profit margin is not applicable.

As demonstrated in Table 8 above, we noted that the gross profit margin of the Industry Comparables ranged from 9.6% to 84.1% with an average value of 54.9% and a median value of 63.0%. Accordingly, given that the 10% mark-up for the O&M Services contemplated under the Solar Farm O&M Agreement translates to be approximately 9.1% in profit margin, which is lower than the minimum and average gross profit margins for the Industry Comparables, we consider that the 10% mark-up under the Cost-Based Pricing is favourable to the Group.

According to our review of the Solar Farm O&M Agreement, we noted that the Actual Costs shall represent the actual costs incurred by Xinyi Energy for the provision of any item or work related to the O&M Services. As there are no historical data regarding such O&M Service Fee payable, we have reviewed and made references to the historical breakdown on the actual cost of sales incurred by the Group for the operation and management of the Initial Portfolio as disclosed in the PHIP as a measure to assess the magnitude of the Actual Costs. We noted that the cost of sales that the Group incurred for the operation and management of the Initial Portfolio mainly consists of depreciation, operating lease expenses, electricity cost, and employees' benefit expenses, which respectively represent 86.0%, 7.9%, 2.8%, and 3.3% of the total cost of sales incurred for the year ended 31 December 2018. We have been advised by the management of the Company that (i) depreciation, being the major cost of sales component, is a non-cash item and calculated based on consistent accounting policy; (ii) operating lease expenses are clearly stated and determined according to the lease contracts; (iii) electricity cost mainly correlates with the output production capacity; and (iv) employees' benefit expenses can be approximated by the number of staff employed, which the Company has full discretion in its assignment pursuant to the Solar Farm O&M Agreement. Given the above, we are of the view that the Company can, to a large extent, monitor and ensure the Actual Costs are under its control and in line with the Company's expectation.

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Nevertheless, there are terms restricting the Company not to engage other independent third parties for conducting similar O&M Services during the term of the Solar Farm O&M Agreement and the Company shall engage Xinyi Energy on an exclusive basis for the provision of O&M Services. We understand that one of the internal control measures that the Company implements is to make regular reference to the market pricing quotes of the similar O&M Services from independent third parties as to ensure that the pricing terms under the Solar Farm O&M Agreement will be in line with the market and that the pricing is no less favourable to the Group than terms offered by independent third parties.

Having considered that (i) the Revenue-Based Pricing falls below the rate range charged by independent third party and it is lower than the rate implied under the Relevant Transaction recently conducted in the market; (ii) the fixed 10% mark-up on top of the Actual Costs under the Cost-Based Pricing is lower than the gross profit margin of the Industry Comparables; (iii) the Actual Costs under the Cost-Based Pricing are, to a large extent, subject to the Company's discretion and cost control management; and (iv) internal control measures are in place to ensure the pricing terms of the Solar Farm O&M Agreement being in line with the market and no less favourable to the Group than those offered by independent third parties, we are of the view that the pricing terms contemplated under the Solar Farm O&M Agreement are fair and reasonable, and they are in the interest of the Company and the Shareholders as a whole.

Payment terms

Pursuant to the Solar Farm O&M Agreement, the O&M Service Fee shall be paid in quarterly instalments. In order to assess the fairness and reasonableness of such payment terms, we noted that the payment terms of the O&M Service Fee under the Relevant Transaction are payable monthly in arrears. As such, we consider that the quarterly payment arrangement contemplated under the Solar Farm O&M Agreement is favourable to the Group as compared to the similar arrangement of the Relevant Transaction, and it is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7.3 Proposed Annual Caps

	<u>Annual caps for the year ended 31 December</u>		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Proposed annual caps	7,200	12,000	15,000

As stated in the Letter from the Board, the proposed annual caps under the Solar Farm O&M Agreement (the "**Proposed Annual Caps**") are RMB7,200,000, RMB12,000,000 and RMB15,000,000 for the year ending 31 December 2019, 2020 and 2021 respectively.

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Determination of the Proposed Annual Caps

In assessing its fairness and reasonableness, we have obtained and reviewed the calculations of the Proposed Annual Caps which are determined based on (i) the sum of the projected annual revenues of the pipeline solar farms (which in turn is the product of (a) the estimated capacity of the respective pipeline solar farm; (b) the expected revenue per unit of electricity generated and sold to the State Grid; and (c) the annual projected utilisation hours of the respective solar farm); (ii) the applicable value-added tax rate; (iii) the O&M Service Fee pricing terms as set out in the Solar Farm O&M Agreement; and (iv) a buffer of 10% (the “**Buffer**”) to take into account of the uncontrollable irradiation conditions and unpredictable construction progress. We noted the aforementioned parameters used in the determination of the Proposed Annual Caps are kept consistent for the period ending 31 December 2019 and the years ending 31 December 2020 and 2021. As the pipeline solar farms are undergoing continuous construction, the Company has incorporated the construction progress of each pipeline solar farms into consideration when determining the Proposed Annual Caps.

(i) Projected Annual Revenue of Pipeline Solar Farms

We are advised by the management of the Company that the Feed-in-Tariff represents the revenue, in RMB, that the Company will receive for each unit of electricity, in kWh, generated and sold to the State Grid. We noted that the Feed-in-Tariff is composed of (i) the sale of electricity, which is the unit price of electricity generated from the coal-powered power plants, and (ii) tariff adjustment, which is the subsidy provided by the government for the shortfall between the approved Feed-in-Tariff and the sale of electricity amount. In regards to the Feed-in-Tariffs, we have obtained from the Company the official approval documents issued by the government stating the approved capacity and Feed-in-Tariff for each pipeline solar farms, and we have verified that the capacity and Feed-in-Tariff of each of the pipeline solar farm used in the determination of the Proposed Annual Caps are in line and consistent as stated in the official documents for the three years ending 31 December 2021 (except for Zhanjiang Phase 2 pipeline solar farm which is still pending approval from the government and Chaohu Jindao pipeline solar farm which is not constructed under the national quota system). We also noted that the sale of electricity is charged at the base tariff rates equivalent to the on-grid benchmark tariff rates of local coal-fired power plants, which vary across PRC provinces and can be adjusted by the local government. We have compared the sale of electricity of the pipeline solar farms with the unit price of electricity of their respective provinces and noted that both prices are equivalent. In regards to Zhanjiang Phase 2 pipeline solar farm which has not yet been grid-connected, no information regarding the Feed-in-Tariff was available as at the Latest Practicable Date. As such, the management of the Company has estimated the relevant Feed-in-Tariff based on Zhanjiang Phase 1 pipeline solar farm, after taking into account that the two pipeline solar farms, Zhanjiang Phase 1 and Phase 2, are located next to each other and both have expected year of completion and grid connection in 2020. In regards to Chaohu Jindao pipeline solar farm which is not constructed under the national quota system, its sale of electricity will achieve grid-parity with the local benchmark price of conventional coal-fired power and as such, there will be no tariff adjustment in respect of the electricity generated by this solar farm project. Therefore, the management of the Company has estimated the sale of electricity based on the benchmark price of coal-fired power in Chaohu.

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We have discussed and been advised by the management of the Company that the annual utilisation hours are estimated using an internal sophisticated software that is specially designed to compute the estimated volume of solar irradiation after inputting the exact coordinates as well as the landscape of the site. In order to assess its fairness and reasonableness, we have made reference to the utilisation hour protection policy, namely “Table of minimum guaranteed annual utilisation hours in key photovoltaic generation area” (the “**Table of Minimum Guaranteed Utilisation Hours**”) 《光伏發電重點地區最低保障收購年利用小時數核定表》, which was released by the NDRC in May 2016, which lists out the guaranteed utilisation hours for solar power plants to be purchased by the State Grid in Resource Zone I and II, and also stated that cities not categorized as either Resource Zone I or II are automatically categorized as Resource Zone III, for which there is no guaranteed minimum utilisation hours. In the event that the utilisation hours of any solar farm within Resource Zone I or II fall below the guaranteed hours, the shortfall would be compensated by the State Grid in full amount up to the guaranteed levels. We noted that Baicheng Phase 1 and Phase 2 pipeline solar farms are categorized as Resource Zone II and all other pipeline solar farms are categorized as Resource Zone III (the “**Resource Zone III Farms**”). As regards to the Resource Zone III Farms, we noted that there are no minimum guaranteed utilisation hours pursuant to the Table of Minimum Guaranteed Utilisation Hours. In order to assess the fairness and reasonableness of the utilisation hours of the Resource Zone III Farms used in the determination of the Proposed Annual Caps, we have made reference to the IO Report disclosed in the PHIP. We noted that the annual effective utilisation hours for solar farm projects in Anhui Province and Guangdong Province ranged from 900 hours to 1,200 hours, and utilisation hours ranged from 1,200 hours to 1,500 hours in Hainan Province. We noted that, except for Zhanjiang Phase 1 and Phase 2 pipeline solar farms, the estimated annual utilisation hours of the Resource Zone III Farms are within the ranges of annual effective utilisation hours of typical solar farm projects in the respective regions. We noted the estimated utilisation hours of 1,250 for Zhanjiang Phase 1 and Phase 2 pipeline solar farms exceeded the maximum of the range of 1,200 hours as in the IO Report. However, taking into account that (i) Zhanjiang city locates right besides Hainan province, which has an annual effective utilisation hours from 1,200 hours to 1,500 hours as predicted by the IO Report; and (ii) the Company’s estimation of 1,250 represents a slight deviation from the 1,200 hours in the IO Report, we are of the view that the annual utilisation hours for Zhanjiang Phase 1 and Phase 2 pipeline solar farms estimated by the Company are fair and reasonable.

(ii) Construction Progress

The Company has advised that the differences among the Proposed Annual Caps are mainly attributable to the expected construction progresses of the pipeline solar farms. We were also advised that while a solar farm is still under construction, the completed portion can first be connected to grid and commence operation. In respect of the annual cap for the year ending 31 December 2019, we noted that the annual cap (i) takes into account that several of the pipeline solar farms are under construction and operated at a partial capacity; and (ii) has been estimated to reflect the period ending 31 December 2019, being approximately seven months of 2019. We noted that the annual cap for the year ending 31 December 2020 reflects the construction of the pipeline solar farms and it reflects the operation on a full-year basis of those pipeline solar farms while the annual cap for the year ending 31 December 2021 takes into account of all of the pipeline solar farms on a full-year basis as all of them will be expected to be fully completed and operating at the respective maximum approved capacities in 2021. We are of the view that the Proposed Annual Caps are determined fairly and reasonably in reflecting the construction and operation schedule of the pipeline solar farms.

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(iii) Applicable Value-added Tax Rate

We have been advised by the management of the Company that the Feed-in-Tariff from the government already includes the value-added tax. As such, the determination of the Proposed Annual Caps adjusts for the applicable value-added tax. Pursuant to the “Announcement on Relevant Policies for Deepening Value-Added Tax Reform”《關於深化增值稅改革有關政策的公告》issued by the PRC Ministry of Finance, State Administration of Taxation and General Administration of Customs in March 2019, the value-added tax rate applicable to the Group and Xinyi Energy has been adjusted to 13%, which is in line with the determination of the Proposed Annual Caps. As such, we are of the view that the value-added tax is adjusted in accordance with an appropriate value-added tax rate as announced by the government authorities.

(iv) Expected Service Fee Rates

Pursuant to the pricing terms under the Solar Farm O&M Agreement (detailed analysis is presented in the section headed “3.2 Principal terms of the Proposed Spin-off”), a service fee of 2.0% of the Project Revenue, net of any value-added tax, will be applied if the Covered Projects’ capacity is less than or equal to 50 MW, while a service fee of 1.5% of the Project Revenue, net of any value-added tax, will be applied if the Covered Projects’ capacity is greater than 50MW. We noted the approved capacity of the pipeline solar farms ranges from 30 MW to 300 MW. We also noted from the determination of the Proposed Annual Caps that a service fee of 2.0% of the Project Revenue has been applied for all pipeline solar farms. We have discussed with the Company in regard to such methodology, and we were advised that it is a common industry practice to construct and operate the solar farm project in phases. Despite the pipeline solar farms having obtained the approval of an aggregate capacity that exceeds 50MW, the management advised that it is a common industry practice to construct several smaller solar farms, which have productivity less than or equal to 50MW, in phases until the aggregate productivities of all the small-scale solar farms reach the approved aggregate capacity for the whole project. The management advises that such strategy, in putting the completed solar farms into operation while others are under construction, helps to reduce the operating risk and cashflow burden to the Group. As such, we concur with the management that a service fee of 2.0% will more appropriately estimate the actual service fees.

(v) Buffer

As indicated in the PHIP, the relatively high level of solar irradiation in 2017 and 2018 had resulted in an average utilisation rates of the Group’s solar farm projects under the Initial Portfolio for 2017 and 2018 reaching 106.7% and 107.5% respectively. In addition to the varying solar irradiation condition, we are also advised by the management of the Company that the Buffer could also accommodate the unpredictable construction progress (details are discussed in the sub-section above headed “*Construction Progress*”). Given that (i) the PHIP indicates that the actual number of utilisation hours were 106.7% and 107.5% of the estimated maximum number of utilisation hours for 2017 and 2018 respectively; (ii) the actual solar radiation received are subject to various uncontrollable conditions; and (iii) the actual construction progress is subject to numerous unpredictable factors despite the Company has devised thorough construction schedule in place, we are of the view that the Buffer of 10% is fair and reasonable.

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Based on the above, (i) the aggregate capacity of the respective pipeline solar farms are in line with the capacity approved by the relevant government authorities; (ii) the expected revenue per unit of electricity from the respective solar farms is in line with the Feed-in-Tariff as approved by the government and recent notice published by the government; (iii) the annual estimated utilisation hours of the respective pipeline solar farms are in line with the minimum guaranteed hours announced by the government and the IO Report; (iv) the Proposed Annual Caps are determined according to the construction and operation status of the pipeline solar farms; (v) the applicable value-added tax rate used in the determination of the Proposed Annual Caps is in line with the latest appropriate tax rate applicable for the solar power industry; (vi) the rate of service fee is within the range applicable in the I3P O&M Quotations; and (vii) the Buffer accommodates the uncontrollable irradiation conditions and the unpredictable construction progresses of the pipeline solar farms, we consider that the Proposed Annual Caps for the three years ending 31 December 2021 are fair and reasonable.

CONCLUSION

Having considered the above principal factors, we are of the view that (i) the terms of the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement and Solar Farm O&M Agreement are fair and reasonable; (ii) the transactions under Proposed Target Disposal and Solar Farm Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Remaining Group; and (iii) the Proposed Spin-Off, Proposed Target Disposal, Solar Farm Agreement and Solar Farm O&M Agreement are in the interests of the Company and the Shareholders as a whole.

Your faithfully,
For and on behalf of
Octal Capital Limited
Alan Fung **Wong Wai Leung**
Managing Director *Executive Director*

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Wong has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Takeovers Code.

GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

This document, 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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company

As of the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 to the Listing Rules as adopted by the Company, were as follows:

(i) Long positions in shares of the Company

<u>Name of Director</u>	<u>Capacity</u>	<u>Number of Shares held</u>	<u>Approximate percentage of the Company's issued share capital</u>
Dr. LEE Yin Yee, B.B.S. ⁽¹⁾	Interest in a controlled corporation ⁽¹⁾	829,014,056	10.30
	Interest in a controlled corporation ⁽²⁾	76,060,196	0.95
	Personal interest ⁽¹⁾	79,130,869	0.98
	Interest in persons acting in concert ⁽³⁾	2,626,814,424	32.64

GENERAL INFORMATION

Name of Director	Capacity	Number of Shares held	Approximate percentage of the Company's issued share capital
Mr. TUNG Ching Sai ⁽⁴⁾	Interest in a controlled corporation ⁽⁴⁾	282,277,830	3.51
	Personal interest ⁽⁴⁾	96,055,120	1.19
	Interest in persons acting in concert ⁽³⁾	2,626,814,424	32.64
Mr. LI Man Yin ⁽⁵⁾	Interest in a controlled corporation ⁽⁵⁾	91,394,968	1.14
	Personal interest ⁽⁵⁾	5,566,039	0.07
	Interest in persons acting in concert ⁽³⁾	2,626,814,424	32.64
Mr. LEE Yau Ching ⁽⁶⁾	Interest in a controlled corporation ⁽⁶⁾	287,607,718	3.57
Mr. CHEN Xi ⁽⁷⁾	Personal interest	230,476	0.003

Notes:

- (1) Dr. LEE Yin Yee, B.B.S. is the beneficial owner of the entire issued share capital of Realbest Investment Limited (“**Realbest**”) which in turn is the registered owner of 829,014,056 shares. Dr. LEE Yin Yee, B.B.S. also has 79,130,869 shares through his spouse, Madam TUNG Hai Chi.
- (2) The interest in the shares are held through Full Guang Holdings Limited (“**Full Guang**”). Full Guang is owned by Dr. LEE Yin Yee, B.B.S. as to 33.98%, Mr. TUNG Ching Bor as to 16.21%, Mr. TUNG Ching Sai as to 16.21%, Mr. LEE Sing Din (father of Mr. LEE Yau Ching) as to 11.85%, Mr. LI Ching Wai as to 5.56%, Mr. NG Ngan Ho as to 3.70%, Mr. LI Man Yin as to 3.70%, Mr. SZE Nang Sze as to 5.09% and Mr. LI Ching Leung as to 3.70%.
- (3) Pursuant to an agreement dated 31 May 2013 and entered into by Dr. LEE Yin Yee, B.B.S., Mr. TUNG Ching Bor, Mr. TUNG Ching Sai, Mr. LEE Sing Din, Mr. LI Ching Wai, Mr. LI Man Yin, Mr. SZE Nang Sze, Mr. NG Ngan Ho, and Mr. LI Ching Leung, the parties have agreed to grant a right of first offer to the other parties to the agreement if they want to sell their Shares allotted to them under a conditional distribution in specie, by way of special interim dividend declared on 19 November 2013 of such number of shares to them representing approximately 67.6% of the issued share capital of the Company as of that date.
- (4) Mr. TUNG Ching Sai is the beneficial owner of the entire issued share capital of Copark Investment Limited (“**Copark**”) which is the registered owner of 282,277,830 shares. Mr. TUNG Ching Sai also has 15,754,717 shares held in his own name and 80,300,403 shares through his spouse, Madam SZE Tang Hung.

GENERAL INFORMATION

- (5) Mr. LI Man Yin is the beneficial owner of the entire issued share capital of Perfect All Investments Limited (“**Perfect All**”) which is the registered owner of 91,394,968 shares. Mr. LI Man Yin also has 3,325,490 shares in his own name and 2,240,549 shares through his spouse, Madam LI Sau Suet.
- (6) Mr. LEE Yau Ching is one of the two directors of Telerich Investment Limited (“**Telerich**”), a company incorporated in the BVI with limited liability and wholly-owned by Mr. LEE Sing Din, the father of Mr. LEE Yau Ching. Telerich is the registered owner of 287,607,718 shares.
- (7) Mr. CHEN Xi has 230,476 shares held through his spouse, Madam MAO Ke.

(ii) *Share options of the Company*

As of the Latest Practicable Date, there were a total of 1,127,559 outstanding share options of the Company granted to Mr. CHEN Xi, an executive director of the Company, under the share option scheme of the Company. Details of which are summarised as follows:

Date of grant	: 28 March 2019	29 March 2018	31 March 2017
Number of share options granted	: 375,000	375,000	375,000
Number of share options outstanding as of the Latest Practicable Date	: 375,000	375,000	377,559 [#]
Exercise period	: 1 April 2022 to 31 March 2023	1 April 2021 to 31 March 2022	1 April 2020 to 31 March 2021
Exercise price per Share	: HK\$3.76	HK\$3.18	HK\$2.48 [#]
Capacity in which interest is held	: Beneficial owner	Beneficial owner	Beneficial owner
Approximate percentage of the Company’s issued share capital as of the Latest Practicable Date	: 0.005%	0.005%	0.005%

[#] Adjusted in June 2017 upon the completion date of the rights issue of the Company. The adjustments were made in accordance with the terms of the share option scheme of the Company and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules.

GENERAL INFORMATION

(iii) Long positions in shares of associated corporations

The table below sets forth the interests of the Directors in Xinyi Energy, a non-wholly owned subsidiary of the Company, as of 31 December 2018:

<u>Name of Director</u>	<u>Capacity</u>	<u>Name of the controlled corporations</u>	<u>Number of shares held in Xinyi Energy</u>	<u>Approximate percentage of Xinyi Energy's issued shares</u>
Dr. LEE Yin Yee, B.B.S.	Interest in a controlled corporation	Charm Dazzle	523,380	9.65
Mr. TUNG Ching Sai	Interest in a controlled corporation	Sharp Elite	214,500	3.96
Mr. LI Man Yin	Interest in a controlled corporation	Will Sail	51,480	0.95

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions 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 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 any such Director was taken or deemed to have under such provisions of the SFO); or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which was required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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(b) Substantial shareholders' interests and short positions in shares and underlying shares of the Company

The register of substantial shareholders required to be kept by the Company under Section 336 of Part XV of the SFO shows that as of the Latest Practicable Date, in addition to the interests disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company", the Company was notified of the following substantial shareholders' interests and short positions in the shares and underlying shares of the Company, being interests of 5% or more.

<u>Name of substantial shareholders</u>	<u>Nature of interest and capacity</u>	<u>Number of Shares held</u>	<u>Approximate percentage of the Company's issued share capital</u>
Xinyi Group (Glass) Company Limited	Beneficial owner	2,033,308,867	25.27
Xinyi Automobile Glass (BVI) Company Limited.	Interest in a controlled corporation	2,033,308,867	25.27
Xinyi Glass Holdings Limited	Beneficial owner	244,674,811	3.04
	Interest in a controlled corporation	2,033,308,867	25.27
Mr. TUNG Ching Bor	Interest in a controlled corporation ⁽¹⁾	304,950,673	3.79
	Personal interest ⁽¹⁾	48,265,333	0.60
	Interest in persons acting in concert ⁽²⁾	2,626,814,424	32.64
Mr. LEE Sing Din	Interest in a controlled corporation ⁽³⁾	287,607,718	3.57
	Personal interest ⁽³⁾	71,482,450	0.89
	Interest in persons acting in concert ⁽²⁾	2,626,814,424	32.64
Mr. LI Ching Wai	Interest in a controlled corporation ⁽⁴⁾	133,267,932	1.66
	Personal interest	3,595,686	0.05
	Interest in persons acting in concert ⁽²⁾	2,626,814,424	32.64

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<u>Name of substantial shareholders</u>	<u>Nature of interest and capacity</u>	<u>Number of Shares held</u>	<u>Approximate percentage of the Company's issued share capital</u>
Mr. SZE Nang Sze.	Interest in a controlled corporation ⁽⁵⁾	126,561,775	1.57
	Personal interest	2,510,329	0.03
	Interest in persons acting in concert ⁽²⁾	2,626,814,424	32.64
Mr. NG Ngan Ho.	Interest in a controlled corporation ⁽⁶⁾	89,351,040	1.11
	Personal interest	2,514,901	0.03
	Interest in persons acting in concert ⁽²⁾	2,626,814,424	32.64
Mr. LI Ching Leung	Interest in a controlled corporation ⁽⁷⁾	88,997,706	1.1
	Personal interest ⁽⁷⁾	8,209,803	0.10
	Interest in persons acting in concert ⁽²⁾	2,626,814,424	32.64

Notes:

- (1) Mr. TUNG Ching Bor's interests in the shares are held through High Park Technology Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. TUNG Ching Bor. Mr. TUNG Ching Bor's personal interest in the shares is held through a joint account with his spouse, Madam KUNG Sau Wai.
- (2) Pursuant to an agreement dated 31 May 2013 and entered into by Dr. LEE Yin Yee, B.B.S., Mr. TUNG Ching Bor, Mr. TUNG Ching Sai, Mr. LEE Sing Din, Mr. LI Ching Wai, Mr. LI Man Yin, Mr. SZE Nang Sze, Mr. NG Ngan Ho, and Mr. LI Ching Leung, the parties have agreed to grant a right of first offer to the other parties to the agreement if they want to sell their shares allotted to them under a conditional distribution in specie, by way of special interim dividend declared on 19 November 2013 of such number of shares to them representing approximately 67.6% of the issued share capital of the Company as of that date.
- (3) Mr. LEE Sing Din's interests in the shares are held through Telerich Investment Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. LEE Sing Din. Mr. LEE Sing Din also has 2,286,274 shares held in his own name and 69,196,176 shares through a joint account with his spouse, Madam LI Kam Ha.
- (4) Mr. LI Ching Wai's interests in the shares are held through Goldbo International Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. LI Ching Wai.
- (5) Mr. SZE Nang Sze's interests in the shares are held through Goldpine Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. SZE Nang Sze.

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- (6) Mr. NG Ngan Ho's interests in the shares are held through Linkall Investment Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. NG Ngan Ho.
- (7) Mr. LI Ching Leung's interests in the shares are held through Herosmart Holdings Limited, a company incorporated in the BVI with limited liability and wholly-owned by Mr. LI Ching Leung. Mr. LI Ching Leung also has 7,752,549 shares held in his own name and 457,254 shares through his spouse, Madam DY Maria Lumin.

Persons who have an interest or short position which is discloseable under divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to the Directors and the chief executive, as of the Expected Assured Entitlement Record Date, the following Directors is a director or employee of the following entities which had, or was deemed to have, interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company and the HKEx under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<u>Name of Directors</u>	<u>Name of companies which had such discloseable interest or short positions</u>	<u>Position within such companies</u>
Dr. LEE Yin Yee, B.B.S., Mr. TUNG Ching Sai	Xinyi Group (Glass) Company Limited	Director
Dr. LEE Yin Yee, B.B.S., Mr. TUNG Ching Sai	Xinyi Automobile Glass (BVI) Company Limited	Director
Dr. LEE Yin Yee, B.B.S., Mr. TUNG Ching Sai	Xinyi Glass Holdings Limited	Director
Dr. LEE Yin Yee, B.B.S.	Realbest Investment Limited	Director
Mr. TUNG Ching Sai	Copark Investment Limited	Director
Mr. LI Man Yin	Perfect All Investments Limited	Director
Mr. LEE Yau Ching	Telerich Investment Limited	Director

Except as disclosed above, as of the Latest Practicable Date, the Company has not been notified by any person or corporation who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO.

GENERAL INFORMATION

3. DIRECTORS' INTEREST IN ASSETS AND/OR ARRANGEMENT

None of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or 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 of the Latest Practicable Date, there was no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group as a whole.

4. DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

There was no contract or arrangement of significance in relation to the Group's business in which a Director had a material interest, whether directly or indirectly, subsisting as of the Latest Practicable Date.

5. EXPERT AND CONSENT

The following sets forth the qualification of the expert who has been named in this document or has given opinion or advice which is contained in this document:

<u>Name</u>	<u>Qualifications</u>
Octal Financial Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Octal Financial Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its opinion prepared for the purpose of incorporation in this document, and the references to its name and opinion in the form and context in which they respectively appear.

Octal Financial Limited has confirmed that as of the Latest Practicable Date, it did not have any beneficial shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any direct or indirect interests in any assets which have since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.