順風國際清潔能源有限公司
SHUNFENG INTERNATIONAL CLEAN ENERGY LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01165)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the announcement of Shunfeng International Clean Energy Limited (the "**Company**" together with its subsidiaries, the "**Group**") dated 18 March 2019 (the "**Profit Warning Announcement**"), the announcement on the final results for the year ended 31 December 2018 dated 28 March 2019 and the annual report of the Company for the year ended 31 December 2018 published on 30 April 2019 (the "**2018 Annual Report**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as in the 2018 Annual Report.

In the 2018 Annual Report, the Company recorded impairment loss of property, plant and equipment of RMB771 million (the "**Impairment Loss**") for the year ended 31 December 2018. The board of directors (the "**Board**") of the Company wishes to provide potential investors and Shareholders with further information on the Impairment Loss.

As disclosed in the Profit Warning Announcement, the Board resolved to recognise a provision for impairment in relation to the Company's property, plant and equipment and the goodwill of the solar products manufacturing segment as the competition in the solar product market continued to be intense for the year ended 31 December 2018 and that the sales and gross profit of solar products did not show any significant improvement. In determining the impairment loss to be recorded and the recoverable amounts, the Board made reference to the independent valuation in the valuation report (the "**Valuation Report**") prepared by an independent valuer, AVISTA Valuation Advisory Limited (the "**Independent Valuer**").

The Valuation Report included asset impairment assessments for five of the operating subsidiaries of the Group, namely, Wuxi Suntech Power Co., Ltd.* (無錫尚德太陽能電力有限公司) ("**Wuxi Suntech**"), Jiangsu Shunfeng Photovoltaic Technology Co., Ltd.* (江蘇順風光電科技有限公司) ("**Jiangsu Shunfeng**"), Luoyang Suntech Power Co., Ltd.* (洛陽尚德電力有限公司) ("**Luoyang Suntech**"), Jiangsu Shunfeng Photovoltaic Electronic Power Co., Ltd.* (江蘇順風光電電力有限公司) ("**Shunfeng Electricity**") and Changzhou Shunfeng Suntech Photovoltaic Materials Co., Ltd.* (常州順風光電材料有限公司) ("**Changzhou Material**").

The details of the valuation conducted by the Independent Valuer are set out below:

(a) Valuation approach

According to Hong Kong Accounting Standard 36, an asset is impaired when its carrying amount exceeds its recoverable amount. Recoverable amount is defined as the higher of its value in use ("**VIU**") and its fair value less cost of disposal ("**FVLCD**").

VIU is the present value of the expected future cash flows to be derived from the assets. Income approach is an appropriate method that can reflect the value of cash flow generated by continuous operation of the assets, which is a commonly accepted approach to determine the VIU. In particular, the Independent Valuer adopted the discounted cash flow method (the "**DCF Method**") in conducting the valuation of Wuxi Suntech, Jiangsu Shunfeng, Luoyang Suntech and Shunfeng Electricity.

FVLCD is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Independent Valuer considered that the market approach is appropriate for determining the market selling price of the assets at the valuation date and adopted the market approach in conducting the valuation of Changzhou Material.

(b) Details of the value of inputs used for the valuation and the basis and the assumptions

Wuxi Suntech, Jiangsu Shunfeng, Luoyang Suntech and Shunfeng Electricity

For Wuxi Suntech, Jiangsu Shunfeng, Luoyang Suntech and Shunfeng Electricity, the recoverable amount of the assets is determined based on VIU calculations. These calculations in cash flow projections were based on a four to five-year financial budget approved by the management of the Group. An estimated general annual growth of 3% (2017: 3%) was adopted to determine the terminal value. The post-tax discount rate used of 15% (2017: 15%) reflects specific risks related to the relevant assets. Other key assumptions for the VIU calculations relate to the estimation of cash inflows or outflows which include budgeted sales and gross margin, such estimation is based on the entities' past performance and expectations of the management of the Board for the market development.

The key assumptions for the impairment testing of the four entities are illustrated as follows:

	For the year ended 31 December 2018
Wuxi Suntech	
Compound annual growth rate of sales	12.4%
Gross margin (as % of revenue)	10.3%
EBITDA margin (as % of revenue)	3.7%
Adopted discount rate	15.0%
Long-term growth rate	3.0%
Jiangsu Shunfeng	
Compound annual growth rate of sales	4.0%
Gross margin (as % of revenue)	12.0%
EBITDA margin (as % of revenue)	13.9%
Adopted discount rate	15.0%
Long-term growth rate	3.0%
Luoyang Suntech	
Compound annual growth rate of sales	6.0%
Gross margin (as % of revenue)	7.1%
EBITDA margin (as % of revenue)	6.9%
Adopted discount rate	15.0%
Long-term growth rate	3.0%
Shunfeng Electricity	
Compound annual growth rate of sales	11.8%
Gross margin (as % of revenue)	8.9%
EBITDA margin (as % of revenue)	8.2%
Adopted discount rate	15.0%
Long-term growth rate	3.0%

Changzhou Material

Based on discussions between the management of Group and the Independent Valuer, the production line of Changzhou Material was discontinued as of the valuation date. The main reason for the discontinuance was that its unit production cost is higher than its selling price which resulted in a negative gross margin. Therefore, the Independent Valuer adopted the market approach to determine the FVLCD of the discontinued asset group. In the case of fixed assets, only machinery and equipment are subject to impairment due to the deterioration of business conditions. In the valuation, the Independent Valuer made reference to the second hand market transfer price of the machines to determine the FVLCD of the machinery and equipment.

(c) Reasons for any significant changes in the value of the inputs and assumptions from those previously adopted

The Independent Valuer noted that there was a change in industry environment and that the new government policy, namely, 2018 PV Power Generation Notice* (2018光伏發電有關事項的通知) (the "**New Policy**"), which was released on 31 May 2018. The New Policy imposed a ceiling on the solar power industry by accelerating the subsidy cuts and lowering the on-grid tariffs. The average unit price of solar module and solar cell dropped by 14% to 33% for the financial year ended 31 December 2018 compared to the financial year ended 31 December 2017. The overall gross profit and net profit margin decreased and Changzhou Material was discontinued due to its negative gross margin in the second half of the financial year ended 31 December 2018. The Board adjusted downward the overall budget to reflect the actual performance and the expectation on the future market trends. Based on the above, the Independent Valuer made certain changes to the value of inputs and assumptions from those previously adopted taking into account the changes in circumstances.

The Board made an assessment of the impairment loss and the recoverable amounts, taking into consideration the Valuation Report together with the following:

(a) the intensified competition in the solar product market, which resulted in a decrease of approximately 12.6% in the annual average selling price of the Group's solar products for the year ended 31 December 2018 as compared to financial year ended 31 December 2017, and the market competition would remain intense in the upcoming financial year;

(b) that the sales and gross profit of solar products did not show any significant improvement for the year ended 31 December 2018;

(c) the Board was not aware of any other hidden or unexpected conditions associated with the assets valued that might adversely affect the values reported in the Valuation Report; and

(d) the Board expected that there would be no material change in the political, legal, technological, fiscal or economic conditions, which might adversely affect the value of the assets valued.

Based on the above and after due and careful consideration, the Board determined the recoverable amount of the property, plant and equipment in respect of the Group's manufacturing and sales of solar products business was estimated to be less than its carrying amount, and the carrying amount of the relevant property, plant and equipment was reduced to the extent of its recoverable amount, and an impairment loss of approximately RMB771 million was recognised for the year ended 31 December 2018.

The Board confirmed that the above additional information does not affect other information contained in the 2018 Annual Report.

By order of the Board
Shunfeng International Clean Energy Limited
Zhang Fubo
Chairman

Hong Kong, 10 January 2020

As at the date of this announcement, the executive Directors are Mr. Zhang Fubo, Mr. Wang Yu, Mr. Lu Bin and Mr. Chen Shi; and the independent non-executive Directors are Mr. Tao Wenquan, Mr. Zhao Yuwen and Mr. Kwong Wai Sun Wilson.

* *For identification purpose only*