水发
SHUIFA

China Shuifa Singyes Energy Holdings Limited
中國水發興業能源集團有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 750)

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

THE ACQUISITION

On 11 September 2020, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendor and the Target Company, pursuant to which, subject to fulfilment of certain conditions precedent, the Purchaser has agreed to purchase and the Vendor has agreed to sell 47.5% equity interest in the Target Company for an aggregate consideration of RMB190,000,000 (approximately HK$211,111,111). Upon completion of the Acquisition, the Target Company will become a non wholly-owned subsidiary of the Company.

IMPLICATIONS UNDER THE LISTING RULES

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

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

SGM

The SGM will be convened for the Independent Shareholders to consider, and if thought fit, to approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement. A circular containing, among other things, (i) the material terms of and further information in relation to the Acquisition; (ii) the recommendation and advice of the Independent Board Committee; and (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders together with a notice convening the SGM, is expected to be dispatched by the Company on or before 18 September 2020.

Shareholders and potential investors should note that completion of the Acquisition is subject to the fulfilment or waiver (as the case may be) of a number of conditions precedent set out in the Sale and Purchase Agreement and the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

THE ACQUISITION

On 11 September 2020, the Purchaser entered into the Sale and Purchase Agreement with the Vendor and the Target Company, pursuant to which the Purchaser has agreed to purchase and the Vendor has agreed to sell 47.5% equity interest in the Target Company for an aggregate consideration of RMB190,000,000 (approximately HK$211,111,111) subject to the fulfilment (to the extent not waived) of the conditions precedent described below.

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date

11 September 2020

Parties

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

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

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

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

Subject Matter

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

Consideration

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

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

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

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

Ernst & Young has given and has not withdrawn its written consents to the issue of this announcement with the inclusion of its letter in the form and context in which such letter is included and all references to its name in the form and context in which it appears.

As at the date of this announcement, Ernst & Young does not have any shareholding in any member of the Group as enlarged by the Acquisition or had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as enlarged by the Acquisition.

Conditions Precedent

*Conditions precedent of the Vendor ("**Vendor CPs**")*

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

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

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

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

*Conditions precedent of the Purchaser ("**Purchaser CPs**")*

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

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

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

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

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

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

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

(g) there being no claim or dispute (whether actual or can reasonably be foreseen to arise) against the Target Company which may prohibit or otherwise restrict the Acquisition and/or any transactions contemplated under the Sale and Purchase Agreement or may (in the reasonable opinion of the Purchaser acting in good faith) render such transaction impossible to complete or illegal;

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

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

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

The Vendor may waive any of the Vendor CPs, except Vendor CP (c). The Purchaser may waive any of the Purchaser CPs, except Purchaser CPs (b), (e), (f) and (g). If any of the Vendor CPs or the Purchaser CPs has not been satisfied (or waived) on or before the

Long Stop Date, either the Vendor or the Purchaser may terminate the Sale and Purchase Agreement and none of the parties will have any obligation towards the other parties as a result of the termination.

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

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

Assignment of Rights, Profit Undertaking and Put Option

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

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

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

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

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

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

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

Completion

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

SHA

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

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

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

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

FINANCIAL EFFECTS OF THE ACQUISITION

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

INFORMATION ON THE VENDOR

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

INFORMATION ON THE TARGET COMPANY

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

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

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

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

In July 2019, the Shandong Energy Bureau announced a list of heat suppliers which are not subject to the curtailment due to their irreplaceability in their operating area and the Steam Co is one of such suppliers.

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

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

The Target Company is owned as to 47.5% by the Vendor, as to 39% by Linre New Energy, as to 10% by Luyin Suhua and 3.5% by Jinan Linhua Partnership. As at the date of the Sale and Purchase Agreement, Linre New Energy was ultimately owned by Li Desheng, Li Wenchao and Zhu Xiaochen, Luyin Suhua was owned by Wang Chen, and Jinan Linhua Partnership is a limited partnership held by 20 persons who are directors or employees of Shuifa Energy or its subsidiaries. As at the date of the Sale and Purchase Agreement, each of Mr. Zheng Qingtao, the Chairman and executive Director, and Mr. Wang Dongwei, an executive Director, holds 14.57% and 7.28% interest, respectively, both as limited partners of Jinan Linhua Partnership. As at the date of the Sale and Purchase Agreement, the Steam

Co was owned by Zhu Lihua and Zhao Zhiliang. Save as disclosed above, to the best of information, knowledge and belief of the Directors having made all reasonable enquiries, none of the other shareholders of the Target Company or their ultimate beneficial owners or the Steam Co or its ultimate beneficial owners, as at the date of the Sale and Purchase Agreement, is a connected person of the Company.

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

As at 31 October 2019, the Target Company acquired 60 industrial customers from the Steam Co with an aggregate contracted steam sales volume of approximately 1.2 million tonnes per year. As at 31 March 2020, the number of industrial customers contracted with Target Company increased to 68 and the steam sales volume contracted for was approximately 1.5 million tonnes per year. As at the date of the Sale and Purchase Agreement, the number of industrial customers increased to 71 and the total steam sales volume contracted for increased to approximately 1.8 million tonnes per year.

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

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

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

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

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

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

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

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

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

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

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

LISTING RULES IMPLICATIONS

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

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

As each of Mr. Zheng Qingtao, the chairman of the Board, Mr. Chen Fushan, an executive Director and Mr. Wang Dongwei, an executive Director, is also a director of Shuifa Energy, they are regarded as having a material interest in the Acquisition. Mr. Zhang Jianyuan, a non-executive Director, is also a director of the Vendor, and he is also regarded as having a material interest in the Acquisition. As such, each of Mr. Zheng Qingtao, Mr. Wang

Dongwei, Mr. Chen Fushan and Mr. Zhang Jianyuan has abstained from voting in the Board meeting to approve the Sale and Purchase Agreement. Save as disclosed above, none of the other Directors attended the Board meeting has a material interest in the Acquisition.

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

SGM

The SGM will be convened for the Independent Shareholders to consider, and if thought fit, to approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement. A circular containing, among other things, (i) the material terms of and further information in relation to the Acquisition; (ii) the recommendation and advice of the Independent Board Committee; and (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders together with a notice convening the SGM, is expected to be dispatched to you by the Company on or before 18 September 2020.

In order to determine the Shareholders who are entitled to attend and vote at the SGM, the register of the Shareholders of the Company will be closed from 25 September 2020 to 30 September 2020 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of members of the Company on 30 September 2020 are entitled to attend and vote at the SGM. In order to be eligible to attend and vote at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 24 September 2020.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder who has a material interest in the transaction is required to abstain from voting in relation to the resolution. As at the date of the Sale and Purchase Agreement, Shuifa Energy (the sole shareholder of the Vendor) and its associate (Water Development (HK) Holding Co., Limited) holds 1,687,008,585 Shares, representing approximately 66.92% of the issued share capital of the Company. They will be required to abstain from voting on the resolution at the SGM in accordance with the Listing Rules. Save for as set out above, as at the date of the Sale and Purchase Agreement, to the best of knowledge of the Directors, no other Shareholder would be required to abstain from voting at the SGM.

Shareholders and potential investors should note that completion of the Acquisition is subject to the fulfilment or waiver (as the case may be) of a number of conditions precedent set out in the Sale and Purchase Agreement and the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

"Acquisition"	the acquisition of 47.5% equity interest in the Target Company for an aggregate consideration of RMB190,000,000 (approximately HK$211,111,111) as contemplated under the Sale and Purchase Agreement;
"Assignment of Rights"	the assignment to be entered into between the Purchaser, the Vendor, the Target Company, Linre New Energy, Jinan Linhua Partnership and the Steam Co to assign certain rights enjoyed by the Vendor under the Previous Share Transfer Agreement and the steam supply agreement (as amended and supplemented from time to time) to the Purchaser upon Completion;
"associate(s)"	has the meaning ascribed thereto in the Listing Rules;
"Board"	the board of directors of the Company;
"Company"	China Shuifa Singyes Energy Holdings Limited (中國水發興業能源集團有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 0750);
"Completion"	completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement;
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules;
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules;
"Director(s)"	the director(s) of the Company;

"Finance Lease"	the finance lease agreement dated 11 August 2020 entered into between China Resources Finance Lease Co., Ltd.* (華潤融資租賃有限公司) as the lessor and the Target Company as the lessee pursuant to which the Target Company sold and leased back all steam pipelines owned by the Target Company for a term of five years at aggregate lease payment of approximately RMB22.78 million per annum, with option to purchase at the end of the term for RMB100;
"Group"	at any time, the Company and each of its subsidiaries from time to time, and "Group Company" means any one of them accordingly;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	an independent committee of the Board comprising all of the independent non-executive Directors, established for the purpose of advising the Independent Shareholders, on the terms of the Sale and Purchase Agreement, the Acquisition and the transactions contemplated thereunder;
"Independent Shareholders"	Shareholders other than Shuifa Energy and its associates who have a material interest in the transactions contemplated under the Sale and Purchase Agreement;
"Jinan Linhua Partnership"	Jinan Linhua Investment Partnership (Limited Partnership) (濟南臨化投資合夥企業（有限合夥）), the 3.5% shareholder of the Target Company as at the date of the Sale and Purchase Agreement;
"Linre New Energy"	Zibo Linre New Energy Co., Ltd.* (淄博臨熱新能源有限公司), the 39% shareholder of the Target Company as at the date of the Sale and Purchase Agreement;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	the date falling on the 45th day after the date of the Sale and Purchase Agreement, or such later date as may be agreed by the Purchaser and the Vendor in writing;

"Luyin Suhua"	Zibo Luyin Suhua Co., Ltd.* (淄博魯銀塑化有限公司), the 10% shareholder of the Target Company as at the date of the Sale and Purchase Agreement;
"PRC"	the People's Republic of China, and for the purpose of this circular only excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Previous Share Transfer Agreement"	the sale and purchase agreement, as may be amended and supplemented from time to time, pursuant to which the Vendor acquired the 47.5% equity interest in the Target Company in January 2020 and was entered into in January 2020 between Linre New Energy as the vendor, the Vendor and Jinan Linhua Partnership as the purchasers and the Steam Co as the guarantor with respect to the sale of 51% equity interest in the Target Company by Linre New Energy and the purchase of 47.5% and 3.5% by the Vendor and Jinan Linhua Partnership, respectively;
"Profit Undertaking"	the undertaking provided by Linre New Energy that the audited net profit (after extraordinary items) of the Target Company for any given financial year during the period from 1 January 2020 to 31 December 2044 is not to be less than RMB63 million;
"Purchaser"	Hunan Singyes Green Energy Co., Ltd.* (湖南興業綠色能源股份有限公司), a wholly-owned subsidiary of the Company;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale and Purchase Agreement"	the sale and purchase agreement dated 11 September 2020 between the Purchaser, the Vendor and the Target Company with respect to the Acquisition;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"SGM"	the special general meeting to be held by the Company at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 30 September 2020 at 10:00 a.m. to consider and if, thought fit, approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement;

"SHA"	the shareholders agreement to be entered into by the Target Company with each of the Purchaser, Linre New Energy, Luyin Suhua and Jinan Linhua Partnership which is to take effect upon completion of the Acquisition;
"Share(s)"	ordinary share(s) of US$0.01 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of the Share(s);
"Shuifa Energy"	Shuifa Energy Group Limited* (水發能源集團有限公司), a wholly owned subsidiary of Shuifa Group whose ultimate controlling shareholder is the State-owned Assets Supervision and Administration Commission of the State Council of the Shandong Province of the PRC* (山東省國有資產監督管理委員會);
"Shuifa Group"	Shuifa Group Co., Ltd.* (水發集團有限公司);
"Steam Co"	Zibo City Linzi Thermal Power Plant Co., Ltd.* (淄博市臨淄熱電廠有限公司), the sole steam supplier of the Target Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Target Company"	Zibo Qilu Chemical Industry Zone Thermal Co., Ltd.* (淄博齊魯化學工業區熱力有限公司), a company owned as to 47.5% by Shuifa Clean Energy, 39% by Linre New Energy, 10% by Luyin Suhua and 3.5% by Jinan Linhua Partnership;
"Valuation Report"	the valuation report prepared by the Valuer dated 11 September 2020 in relation to valuation of the Target Company;
"Valuer"	Roma Appraisals Limited, the independent valuer appointed by the Company in relation to the Acquisition;
"Vendor"	Shandong Shuifa Clean Energy Technology Co., Ltd.* (山東水發清潔能源科技有限公司), a wholly owned subsidiary of Shuifa Energy;
"%"	per cent.

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

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

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

Hong Kong, 11 September 2020

* *for identification purpose*

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

APPENDIX I — PRINCIPAL ASSUMPTIONS IN THE VALUATION REPORT

Details of the major assumptions set out in the Valuation Report are:

- The valuation was primarily based on the financial projections and latest audited financial statements of the Business Enterprise as at 31 March 2020 as provided by the Management. The projections outlined in the financial information provided were assumed to be reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- The Business Enterprise will continue to operate as planned by the Management;

- As advised by the Management, the Business Enterprise has complied with the applicable laws and regulations in China in all material respects;

- As advised by the Management, the steam supply operation of the Business Enterprise will not be continued after 2039;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Business Enterprise operate or intend to operate would be officially obtained and renewable upon expiry;

- There will be sufficient supply of technical staff in the industry in which the Business Enterprise operate, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

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

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

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

Major Assumptions of Cash Flow Projection

Terms

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

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

Revenue and Cost

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

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

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

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

Operating Expenses

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

Depreciation Expenses

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

Income Tax Expenses

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

Working Capital

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

Capital Expenditure

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

The following is extracted from a letter from Ernst & Young to the Company for incorporation in this announcement

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

To the Directors of China Shuifa Singyes Energy Holdings Limited,

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

Directors' responsibilities

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

Our Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

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

Opinion

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

Ernst & Young
Certified Public Accountants
Hong Kong

September 11, 2020

11 September 2020

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

Dear Sirs,

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

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

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

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

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

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