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**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)**

## **MAJOR AND CONNECTED TRANSACTION DISPOSAL OF LATTICE POWER (JIANGXI) CO., LTD**

### **THE SALE AND PURCHASE AGREEMENT**

On 31 December 2020 (after trading hours), the Vendor (an indirect non-wholly owned subsidiary of the Company) entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase the Target Interest, representing 100% of the equity interests in the Target Company, at an aggregate Consideration of RMB670 million.

### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder exceed 25% but all of the applicable percentage ratios are less than 75%, the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a major disposal of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Purchaser is held as to 61.54% by Mr. Wang Min, a director of the Vendor which is an indirect non-wholly owned subsidiary of the Company, and is therefore a connected person of the Company, the Sale and Purchase Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder.

In this connection, Opus Capital Limited has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder.

### **EGM**

An EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

### **DESPATCH OF CIRCULAR**

A circular containing, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its recommendation in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder; and (iv) the notice of the EGM, is expected to be despatched to the Shareholders on or before 22 January 2021.

### **GENERAL**

**Shareholders and potential investors should note that the Disposal is subject to certain Conditions and may or may not materialise. There is no assurance that the Disposal will proceed.**

**Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their professional adviser(s).**

## INTRODUCTION

On 31 December 2020 (after trading hours), the Vendor (an indirect non-wholly owned subsidiary of the Company) entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase the Target Interest, representing 100% of the equity interests in the Target Company, at an aggregate Consideration of RMB670 million.

## THE SALE AND PURCHASE AGREEMENT

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

- Date: 31 December 2020
- Parties: (i) Lattice Power Corporation (晶能光電有限公司\*) (an indirect non-wholly owned subsidiary of the Company, as the Vendor)
- (ii) Nanchang Guanggu Group Limited\* (南昌光穀集團有限公司) (as the Purchaser)
- Asset to be disposed of: the Target Interest, representing 100% of the equity interest in the Target Company, together with all the rights, benefits, obligations and liabilities of a shareholder corresponding to such equity interest, including all the direct and indirect rights, benefits, obligations and liabilities of the Target Company as a shareholder of its subsidiaries as listed in the Sale and Purchase Agreement.
- Consideration and payment: The aggregate Consideration is RMB670 million.
- Details of payment are set out as follows:
- (i) RMB20 million will be paid by the Purchaser as the deposit to the Jointly Managed Account within 15 Business Days of the signing of the Sale and Purchase Agreement (the “**First Payment**”).
- (ii) RMB325 million will be paid by the Purchaser to the Jointly Managed Account within 15 Business Days after having received all the relevant approvals including but not limited to the Vendor’s shareholder and the Stock Exchange (if required) and all Conditions having been satisfied (the “**Second Payment**”).

- (iii) Within 10 Business Days after the Completion, the First Payment and the Second Payment will be transferred from the Jointly Managed Account to the account of the Vendor. RMB325 million will be paid by the Purchaser to the account of the Vendor within 30 Business Days after Completion.

The Purchaser may pay the Consideration by assuming the debts of the Vendor or the Vendor's controlling shareholder but the Vendor shall complete the transfer of the Target Interest only after the assignment of debt is completed by the Purchaser and the third party debtor. As the Company indirectly holds 58.3% of equity interests in the Vendor, the Company will be entitled to approximately RMB390.6 million from the Consideration.

Basis of the  
Consideration:

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor, taking into account, among other things:

- (i) the preliminary valuation of the implied equity value of the Target Company as at 30 June 2020 of RMB664,463,000 (the "**Implied Equity Value**") as stated in the valuation report of the Target Company conducted by an independent valuer appointed by the Company, AVISTA Valuation Advisory Limited (the "**Valuer**"), adopting the market approach;
- (ii) the unaudited financial information of the Disposal Group including but not limited to the net asset value of the Disposal Group as at 30 June 2020; and
- (iii) having considered the Implied Equity Value as the initial referencing basis of the Consideration for negotiations with the Purchaser and upon rounds of arm's length commercial negotiations between the Vendor and the Purchaser, an additional amount of approximately RMB5.54 million over the Implied Equity Value as agreed between the Parties.

Further details will be included in the circular to be despatched to the Shareholders.

Conditions precedent: Completion is subject to and conditional upon the satisfaction of the following Conditions, unless waived pursuant to the Sale and Purchase Agreement:

- (i) the Company having obtained the consent and approval of the Stock Exchange for the Disposal (if required);
- (ii) the Independent Shareholders having approved the Disposal in accordance with the Listing Rules;
- (iii) the Vendor having obtained all other necessary consents and approvals for the purpose of executing, delivering and performing the Sale and Purchase Agreement, the relevant documents and transactions contemplated thereunder, including the approval of the shareholders' meeting and the approval of the Stock Exchange (if required);
- (iv) the Purchaser having obtained all other necessary consents and approvals for the purpose of executing, delivering and performing the Sale and Purchase Agreement, the relevant documents and transactions contemplated thereunder;
- (v) there having been no material adverse change to the business, assets, financial position, performance, operations, properties or conditions (financial or otherwise) of any companies in the Disposal Group since date of the Sale and Purchase Agreement;
- (vi) the Vendor and the Disposal Group having fully cooperated with the Purchaser and its appointed consultants and agents on their full and appropriate due diligence within 30 Business Days from the date of the Sale and Purchase Agreement in accordance with the reasonable request of the Purchaser, in respect of the assets, liabilities, operations and affairs of the Disposal Group, and the results of which being consistent in all material or substantive aspects with the information disclosed by the Vendor prior to the date of the Sale and Purchase Agreement and the information obtained by the Purchaser;

- (vii) no court, arbitrator, government agency, statutory or regulatory body having ever issued or instituted any restrictions, prohibitions or illegalized any transactions under the Sale and Purchase Agreement, or any notices, orders, judgments, actions or legal proceedings that may reasonably have a material adverse effect on the Purchaser's rights, without any encumbrance, as a legal and beneficial owner of the Target Interest upon Completion;
- (viii) the representations and warranties made by the Vendor under the Sale and Purchase Agreement having remained in force and there having been no breach of agreement in the course of performance of the Sale and Purchase Agreement, or other circumstances which are contrary to its representations and warranties; and
- (ix) the representations and warranties made by the Purchaser under the Sale and Purchase Agreement having remained in force and there having been no breach of agreement in the course of performance of the Sale and Purchase Agreement, or other circumstances which are contrary to its representations and warranties.

The Vendor and the Purchaser shall use their respective best endeavours to procure the fulfilment of all the Conditions. The Purchaser shall use its best endeavours to procure the fulfilment of Conditions (vi) and (ix).

In the event that the Conditions are not fulfilled (or waived) by the Long Stop Date, the Sale and Purchase Agreement shall terminate and become ineffective, upon which the Parties shall be released from all obligations of the Sale and Purchase Agreement, save for any obligations for antecedent breaches by a Party.

Each Party has the right to waive the Condition that is required to be fulfilled by the other Party by written advance notice. As at the date of this announcement, none of the Conditions above have been fulfilled.

Completion: Completion shall take place within 30 Business Days after the Conditions have been fulfilled and the First Payment and the Second Payment having been made, and shall be no later than the Long Stop Date. The Vendor and the Purchaser shall proactively cooperate with the Target Company to submit to the relevant local government authorities all relevant materials required for the approvals, consents and filings required for the Completion. In order to facilitate the Completion, the Parties shall endeavour to ensure the approval, filing and completion procedures of all relevant authorities (including but not limited to industry and commerce, foreign exchange, commerce and development and reform commission) required for the Completion be completed on or before the Long Stop Date and the Target Interests be transferred to the Purchaser. The Parties may negotiate on whether the Long Stop Date should be postponed.

Upon full payment of the First Payment and the Second Payment by the Purchaser, the Vendor shall check all the assets of the Disposal Group and handover them to the Purchaser.

The Vendor shall cooperate with the Purchaser to complete the procedure of the change of legal representative, director, supervisor and senior management after Completion if requested.

## **VALUATION**

According to the Valuation Report, the Implied Equity Value of the Target Company as at 30 June 2020, based on the market approach using historical figures, amounts to RMB664,463,000. The Valuer selected seven comparable companies based on the following criteria:

- (i) The business activities of the companies involved manufacturing and sale of LED products in Asia;
- (ii) The companies are listed in major stock exchanges;
- (iii) The companies are profit making in reported last twelve months result; and
- (iv) The financial information of the companies is available to the public.

## REASONS FOR AND BENEFITS OF THE DISPOSAL

### 2015 Acquisition

The Company entered into a share purchase agreement and an ESOP purchase agreement to acquire 59% of the issued share capital of the Vendor from a group of sellers including Mr. Wang Min, for an aggregate consideration of approximately HK\$2,039,998,496, which was satisfied in full by the Company allotting and issuing the consideration Shares to the sellers at HK\$5.20 per Share (the “**2015 Acquisition**”). The consideration for the 2015 Acquisition was determined after arm’s length negotiations between the Company and the sellers on normal commercial terms, with reference to the valuation of the fair value of 59% equity interest in the Vendor of HK\$2,400,000,000 as at 31 March 2015 by Grant Sherman Appraisal Limited, a qualified independent third party valuer, based on the discounted cash flow method.

As a technology leader in GaN-on-Silicon LED technology, the Vendor was the first company in the world to start the mass production of GaN-on-Silicon high power thin film vertical LED chips with industry-leading performance. The Vendor also owned significant patents and IP on the GaN-on-Silicon LED technology and was developing production on even larger wafer sizes (150–200 mm diameter) and integrated wafer-level packaging for driving down costs and increasing lumens/dollar.

The Board considered the following benefits of acquiring the Vendor as a non-wholly owned subsidiary of the Company:

- (i) LED lighting was an important link in the solutions for low-carbon cities, low-carbon communities, and low-carbon families, which was in compliance with the development strategies of the Company as a provider for comprehensive low-carbon and energy-saving solutions.
- (ii) The Vendor owned the disruptive 6-inch and 8-inch GaN-on-Silicon LED technology, with over 200 global patents awarded. Its vertical integration of the LED industrial chain and successful commercial mass production had resulted in the supply of low-cost LED lighting products featuring high performance for the purpose of general lighting, smart phone and automobile lighting.
- (iii) As a persistent, reliable, energy-saving lighting technology featuring high performance, LED lighting had vast and bright market prospects. LED lighting, which saves 50%-80% energy in comparison to the ordinary lighting, would definitely replace the traditional lighting in every aspect. The revolutionary GaN-on-Silicon LED technology of the Vendor led to the drastic reduction in production cost when compared to the traditional GaN-on-Sapphire LED, which would result in the tremendous contribution to the profit of the Company. By virtue of the prominent core technology of the Vendor, the Company would proceed with the timely integration of the industrial chain on global basis in order to secure greater benefits.



The Vendor had issued certain existing warrants prior to the 2015 Acquisition. To avoid any dilution effect resulted from the conversion of such existing warrants affecting the Company's control over the Vendor, the Company had agreed to subscribe to the series E warrants and obtained a call option as part and parcel of the 2015 Acquisition.

As disclosed in the 2016 annual results announcement of the Company dated 28 March 2017, in light of the loss incurred by the Vendor in 2016, the management of the Group assessed the recoverable amounts in relation to each cash-generating-units determined based on a value-in-use calculation, and recognized impairment losses on goodwill and intangible assets of RMB412,171,000 and RMB160,864,000 respectively, and partial impairment losses on property, plant and equipment of RMB244,891,000 in relation to the Vendor. In addition, the Group also recognised gain of RMB254,929,000 on changes in fair value of the series E warrants in the Vendor in 2016. Considering the lower synergy benefit from the 2015 Acquisition in the whole Group and the continued and high research and development cost of the LED products industry, the Company intends to lower its exposure to the LED products industry, focus more on the solar power generation business in the PRC and dispose of LED products related assets to generate immediate cash for reduction of the debt level of the Group.

#### **2018 Disposal, Previously Proposed Subscription, 2019 Disposal and 2020 Disposal**

The development of the business of the Group, in particular, the construction of the solar power plants in the PRC that the Group was previously involved in, is extremely capital intensive. Whilst the Group operates a substantial level of clean energy businesses, one important factor that has hindered the Group's financial performance has been the high level of finance costs (i.e. interest expenses) associated with its high debt level. With reference to the published reports of the Company, the Group recorded finance costs amounting to RMB1,163.0 million in its 2019 annual report and RMB456.3 million in its 2020 interim report, respectively. As disclosed in the Company's 2019 annual report and 2020 interim report, the Group was in a negative net cash position of RMB8,563.7 million and RMB7,937.2 million as at 31 December 2019 and 30 June 2020, respectively. In light of the recurring financing needs of the Company (including the need to settle financial expenses), back in September 2018, the Company began to seek additional capital and contemplate possible disposals in its continued efforts to reduce the overall debt-to-equity level, including (i) the 2018 Disposal; (ii) the proposed subscription of subscription shares (the "**Previously Proposed Subscription**") as disclosed in the announcements of the Company dated 9 January 2019, 30 January 2019, 28 February 2019, 29 March 2019 and 31 March 2019; (iii) the 2019 Disposal; and (iv) the 2020 Disposal (as defined below).

## 2018 Disposal

In respect of the 2018 Disposal, on 10 December 2018, Shunfeng Photovoltaic Holdings and Asia Pacific Resources entered into a sale and purchase agreement, pursuant to which Shunfeng Photovoltaic Holdings sold, and Asia Pacific Resources purchased, 100% of the equity interest in Jiangsu Shunfeng Photovoltaic Technology Company Limited\* (江蘇順風光電科技有限公司). Although all proceeds from the 2018 Disposal, upon completion, were used for reducing the Group's debt, it was insufficient to meet the financial need of the Company. As disclosed in the circular of the Company dated 30 June 2019 in relation to the 2018 Disposal, the Company intended to use the net proceeds from the 2018 Disposal (after deducting relevant costs and expenses) as follows:

- (a) RMB200 million of the consideration would be used as working capital of the Group (which would not be used to repay the outstanding amount of the third batch of outstanding convertible bonds issued by the Company and held by Peace Link in the principal amount of HK\$2,148 million with a maturity date of 15 April 2024 (the **"Third CB"**));
- (b) RMB1,745 million of the consideration would be used to repay the relevant payables owed by Shunfeng Photovoltaic Investments to the disposal group, which were debts borrowed by the operations of solar power plants in the PRC by the then Group for the purposes of constructing solar power plants, repaying existing loans and interests and supplementing working capital; and
- (c) HK\$1,200 million of the consideration would be satisfied through Asia Pacific Resources taking assignment of a loan in the same amount lent to the Company by Sino Alliance Capital Ltd to Asia Pacific Resources.

In relation to (a), the Company has received the consideration of RMB200 million from Asia Pacific Resources, which has been applied to repay debts of approximately RMB24.73 million owed to financial institutions such as Shanghai Dazong Financial Leasing Co., Ltd\* (上海大眾融資租賃有限公司), Cinda Financial Leasing Co., Ltd (信達金融租賃有限公司) and COSCO Shipping Leasing Co., Ltd\* (中遠海運租賃有限公司), repay debt interest of approximately RMB109.58 million, pay a total of approximately RMB65.69 million for construction payable of relevant creditors, operation and maintenance payables and land tax to CNBM Technology Corporation Limited (中建材資訊技術股份有限公司), Anyi Construction Group Co., Ltd. (安宜建設集團有限公司), Hebei Surpass Sun Electric Co., Ltd\* (河北追日電氣股份有限公司) and IT Electronics Eleventh Design & Research Institute Scientific and Technological Engineering Corporation Limited\* (電子產業電子第十一設計研究院科技工程股份有限公司).

In relation to (b), an amount of RMB1,745 million shall be payable by Asia Pacific Resources within three months after the date of completion. The Company expects that such amount will be utilised in accordance with the sale and purchase agreement for the 2018 Disposal as disclosed in the circular.

In relation to (c), the Company has already entered into a loan assignment agreement with Sino Alliance Capital Ltd which assigned a debt of HK\$1,200 million to Asia Pacific Resources.

Furthermore, as disclosed in the Company's circular dated 30 June 2019, Peace Link entered into a legally binding deed of waiver and undertaking in favour of the Company on 24 March 2019, pursuant to which Peace Link agreed to waive the repayment and redemption obligations of the Company in respect of HK\$1,948 million out of HK\$2,148 million under the Third CB for no consideration. The Company has received a waiver and commitment deed from Peace Link, which waived the repayment and redemption obligation of the Company of HK\$1,948 million under the Third CB.

### **Previously Proposed Subscription**

In respect of the Previously Proposed Subscription, as disclosed in the announcement of the Company dated 31 March 2019, as there remained conditions that were not fulfilled or waived and the Company had not received the subscriber's decision to extend the long stop date, the Previously Proposed Subscription eventually lapsed on 31 March 2019.

### **2019 Disposal**

As disclosed in the announcement of the Company dated 26 November 2019 and the circular of the Company dated 29 December 2019, each in relation to the 2019 Disposal, on 15 November 2019, Jiangxi Shunfeng Photovoltaic Investment Co., Ltd.\* (江西順風光電投資有限公司), Shanghai Shunneng Investment Co., Ltd.\* (上海順能投資有限公司) and Shijiazhuang Yakai New Energy Development Ltd.\* (石家莊亞凱新能源開發有限公司) (each a wholly-owned subsidiary of the Company) entered into 11 sale and purchase agreements with Zhonghe Shandong Energy Co., Ltd.\* (中核山東能源有限公司) (the "**2019 Disposal Purchaser**"), pursuant to which the vendors conditionally agreed to sell, and the 2019 Disposal Purchaser conditionally agreed to purchase, the equity interests in 11 subsidiaries of the Company (the "**2019 Subject Companies**"), with total installed capacity of 490MW in their solar power projects, at an aggregate consideration of RMB641.42 million. It was further disclosed in the poll results announcement of the Company dated 17 January 2020 that the ordinary resolution to approve the 2019 Disposal was duly passed by the Shareholders in the extraordinary general meeting on the same date. As at the date of this announcement, registration for share transfer has been completed in respect of all the 2019 Subject Companies.

## **2020 Disposal**

As disclosed in the announcement of the Company dated 18 March 2020 and the circular of the Company dated 15 June 2020, Jiangxi Shunfeng Photovoltaic Investment Co., Ltd. and Shanghai Shunneng Investment Co., Ltd., the indirectly wholly-owned subsidiaries of the Company, entered into 6 sale and purchase agreements with Zhejiang Zhengtai New Energy Development Co., Ltd.\* (浙江正泰新能源開發有限公司) on 16 March 2020, pursuant to which Jiangxi Shunfeng Photovoltaic Investment Co., Ltd and Shanghai Shunneng Investment Co., Ltd agreed to sell 100% of the equity interest in Akesu Datang New Energy Co., Ltd.\* (阿克蘇大唐新能源有限公司), Yuepuhu Gaoke New Energy Power Generation Co., Ltd.\* (岳普湖高科新能源發電有限公司), Heshuo Hengxin New Energy Technology Co., Ltd.\* (和碩恒鑫新能源科技有限公司), Tulufan Lianxing New Energy Co., Ltd.\* (吐魯番聯星新能源有限公司), Wensu Riyuehui New Energy Co., Ltd.\* (溫宿縣日月輝新能源有限公司), and Hejing Yixin New Energy Technology Co., Ltd.\* (和靜益鑫新能源科技有限公司) at an aggregate consideration of RMB181,139,954.86 (the “**2020 Disposal**”). The registration of share transfer of the 6 target companies was completed in July 2020.

However, although the completion of the 2018 Disposal, the 2019 Disposal and the 2020 Disposal had significantly reduced the Group’s highly indebted position and finance costs, it was insufficient for the Group to meet its immediate financing needs. Therefore, the Group has continued to implement a series of development plans which comprise, among other things, (i) the Disposal; (ii) seeking extension of due dates of the relevant debts and/or alternative refinancing; and (iii) further disposal(s) of solar power plants in the PRC by tranches.

### **Working capital needs and reducing debt level**

The Company has recorded a negative net cash position of RMB12,889.3 million as at 31 December 2018, RMB8,563.7 million as at 31 December 2019, and RMB7,937.2 million as at 30 June 2020. In particular, the Group’s negative net cash position of RMB7,937.2 million as at 30 June 2020 included cash and cash equivalents of RMB163.8 million, bank and other borrowings of RMB6,760.8 million, convertible bonds of RMB514.5 million and bonds payable of RMB825.7 million.

As at the date of this announcement, the Company has the following major debts due on or before 30 June 2021:

Creditor	Principal Amount in thousands of		Due date
	<i>HK\$</i>	<i>RMB</i>	
Chongqing International Trust Co., Ltd.* (重慶國際信託股份有限公司)	—	666,000	30 September 2020 and seeking further extension date
Donghai Securities Co., Ltd* (東海證券股份有限公司)	—	361,920	31 March 2020 and seeking further extension date
True Bold Global Limited	171,696	—	31 March 2020 and seeking further extension date
One individual bond holder	350,000	—	25 March 2020 and seeking further extension date
Sino Alliance Capital Ltd	400,000	—	31 December 2019 and seeking further extension date
	800,000	—	31 December 2020 and seeking further extension date
China Minsheng Banking Corp. Ltd Hong Kong Branch* (民生銀行香港分行)	150,000	—	30 June 2021
Shanghai Chi Yi Investments Management Co., Ltd* (上海志奕投資管理有限公司)	—	255,463	25 April 2021
<b>Total</b>	<b><u>1,871,696</u></b>	<b><u>1,283,383</u></b>	

The Company is in the process of seeking additional capital for the repayment of the above debts that are due on or before 30 June 2021. In the alternative, the Company will seek to negotiate with the relevant creditors to seek refinancing and/or extension of due dates of the relevant debts, if necessary. As disclosed in the sub-section headed “The Sale and Purchase Agreement — Consideration and payment” above, the Consideration is RMB670 million and the Company is entitled to approximately RMB390.6 million. As such, the Company expects that the proceeds from the Disposal will help, among other things, the improvement of the Company’s balance sheet position by reducing its debt level.

In order to settle the major debts falling due on or before 30 June 2021, the Company intends to (i) settle part of the debts with a substantial part of the Consideration amounting to approximately RMB340.6 million, (ii) engage in further negotiations with the major creditors of the Company including Sino Alliance Capital Ltd, Chongqing International Trust Co., Ltd.\* (重慶國際信託股份有限公司) and the one individual bond holder for potential extension of the repayment period of certain debts of the Company and (iii) further dispose of part of its solar power plants. It is expected that such further disposals will generate cash proceeds, the amount of which is to be determined upon further commercial negotiations between the Company and the potential purchasers, and will then be utilised to settle certain outstanding debts that are due on or before 30 June 2021. If, and only if, there are still outstanding debts due and unpaid upon carrying out the above steps (i) and (ii), the Board will consider disposing of further solar power plants as and when necessary. As at the date of this announcement, the Company has not entered into any other arrangements or agreements or understanding, whether formal or informal, with any potential purchasers other than the Purchaser.

#### **Delay in receiving tariff subsidy and receivables from State Grid**

With reference to the Renewable Energy Law, on-grid tariffs of renewable energy power generation projects shall be determined by a competent pricing department of the State Council of the PRC taking into account various factors and in accordance with the principle of promoting the development and utilisation of renewable energy, with timely adjustments made based on the development of technology utilisation. Under the Renewable Energy Law, the higher costs incurred for purchasing electricity generated by renewable energy as compared to costs calculated on the basis of the average on-grid tariff for electricity generated by conventional energy sources shall be compensated by the amount collected by way of a renewable energy tariff imposed on the sale of electricity nationwide. In August 2013, the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) issued the price reform (Reform [2013] No. 1638) which stipulated that where the benchmark grid price of solar power plant is higher than that of the local coal-fired unit benchmark price, renewable energy development fund (the “**Renewable Energy Development Fund**”) shall be used to subsidise enterprises by the difference between the benchmarked prices.

Due to limited sources of income of the Renewable Energy Development Fund, limited tariff subsidies have been released from the Renewable Energy Development Fund for renewable energy projects over the past two years. As at the date of this announcement, the Company has collected the subsidies for and until around March 2018, with an amount of RMB3,040 million in aggregate; in other words, subsidies for the solar power plants of the Group eligible for renewable energy tariff has been in arrears for nearly three years. As at 30 November 2020, the Company has a subsidy receivable of approximately RMB1,742 million and receivables on accrued revenue on tariff subsidies from the State Grid of approximately RMB1,682 million from the Group consolidated level. Given the Company's limited bargaining power with the State Grid, the Company has been unable to take any effective measures to secure repayment of such receivables. As a result of the delay in receiving tariff subsidies from the State Grid, the Group's operating cash flow has been impacted significantly.

### **Immediate positive cash inflow**

In light of the electricity restriction and delay in receiving tariff subsidies and receivables, it has become generally more difficult for the industry (especially for non-state owned companies) to operate solar power generation business in the PRC. In particular, the solar power projects have been generating less revenue. Coupled with high finance costs, the profitability of the Company has been brought down. Such factors also add fuel to the deteriorating cash flow condition of the Group. The difficulties faced by the Group are not only specific to the Company but are affecting the whole industry. A number of other large-scale solar power generation companies operating in the PRC and listed in Hong Kong also face similar issues and have disposed of their assets with a view to improving their cash flow condition. Subsequent to the lapse of the Previously Proposed Subscription and given the above financing needs, despite the 2018 Disposal, the 2019 Disposal and the 2020 Disposal having been completed, the Company needed to source positive cash inflow to meet its current financing needs. The Company has explored and considered other measures to improve the financial positions and operations of the Group and to cope with the deteriorating cash flow condition of the Group due to the delay in receiving tariff subsidies and receivables from the State Grid, such as considering various potential buyers who had expressed interests in the assets of the Group. The Disposal will generate an immediate cash inflow of approximately RMB390.6 million to the Company, which would help the Company repay its debts that are due or will become due in approximately six months from the date of this announcement according to the use of proceeds in the section headed "Use of Proceeds" below. Besides, the unique technology in the disruptive 6-inch and 8-inch GaN-on-Silicon LED had been well developed by the Vendor and awarded over 200 global patents before the 2015 Acquisition by the Group, Mr. Wang Min is familiar with this technology and the Board understands the Purchaser will continually expose and invest into this aspect upon completion of the Disposal. After the Board's careful consideration, the Board considered that the offer of the Purchaser

is a viable option and may be carried out in a relatively expeditious manner, and hence in the interest of the Company and the Shareholders as a whole. As such, the Company eventually decided to proceed with the Disposal.

### **Confirmation of the Board**

Based on the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be published by the Company after considering the advice from the Independent Financial Adviser) are of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are made on an arm's length basis and on normal commercial terms that are fair and reasonable, and the Disposal is in the interest of the Company and the Shareholders as a whole.

### **FINANCIAL EFFECTS OF THE DISPOSAL**

Based on the preliminary assessment, it is expected that the Group will record a gain of approximately RMB100 million as a result of the Disposal, being the difference between the Consideration and the unaudited net asset value of the Target Group prepared in accordance with International Financial Reporting Standards as of 30 June 2020, after deducting the estimated amount of taxes and expenses payable by the Vendor in respect of the Disposal. The actual gain or loss as a result of the Disposal to be recorded by the Group is subject to the final audit to be performed by the auditors of the Company.

### **USE OF PROCEEDS**

The Company intends to use the net proceeds from the Disposal (after deducting relevant costs and expenses) as follows:

- (a) RMB50.0 million of the Consideration will be used as working capital of the Group; and
- (b) RMB340.6 million will be used to repay the debts.

### **INFORMATION ON THE DISPOSAL GROUP**

#### **Information on the Target Company**

The Target Company is a company established under the laws of the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company, which operates the manufacturing and sale of LED products businesses of the Group.



Further details of the Target Company and the principal subsidiaries and joint venture of the Target Company are set out as follows:

No.	Name	Principal business	Principal place of business	Equity interest held by the Target Company
1.	Target Company	Manufacturing and sale of LED products	PRC	Not applicable
2.	Jiangxi Jing Liang Photovoltaic Technology Coordinative Innovation Co., Ltd* (江西省晶亮光電科技協同創新有限公司)	Manufacturing and sale of CSP LED products	PRC	70%
3.	Jiangxi Province Changda Photovoltaic Technology Co., Ltd* (江西省昌大光電科技有限公司)	Manufacturing and sale of LED module products	PRC	100%
4.	Jiangxi Province Lattice Semiconductor Co., Ltd* (江西省晶能半導體有限公司)	Manufacturing and sale of LED Ceramic Packaging products	PRC	83.33%
5.	Jiangxi Province Jing Ding International Trade Co., Ltd (江西省晶鼎國際貿易有限公司)	Investment Holding	PRC	100%
6.	Nanchang Silicon-based Semiconductor Technology Co., Ltd* (南昌硅基半導體科技有限公司)	Manufacturing and sale of LED products	PRC	1.24%
7.	Shenzhen Hong Shi Photovoltaic Co., Ltd* (深圳紅石光電有限公司)	Manufacturing and sale of LED Lighting products	PRC	100%

## Financial information on the Disposal Group

Based on the unaudited combined financial statement of the Disposal Group prepared by the management of the Group, the financial information of the Disposal Group for the two years ended 31 December 2018 and 2019 and for the six months ended 30 June 2020 is as follows:

	For the year ended 31 December		For the six months ended
	2018	2019	30 June 2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)
Net profit/(loss) before taxation	7,981	40,498	57,680
Net profit/(loss) after taxation	7,493	35,780	57,299

The unaudited net asset value and the unaudited total asset value of the Disposal Group as at 30 June 2020 was approximately RMB490 million and RMB721 million, respectively.

As at the date of this announcement, 58.3% of equity interest in the Target Company is held by the Vendor. Upon Completion, each entity of the Disposal Group will cease to be a subsidiary of the Company and the financial positions and results of the Disposal Group will no longer be consolidated into the financial statements of the Group.

## INFORMATION ON THE PARTIES

### Information on the Group

The Group has evolved from engaging purely in solar power business into a diversified leading integrated provider of clean energies and low-carbon and energy-saving solutions with global influences. The Group continues to proactively explore various kinds of clean energy resources with an aim to lay a solid foundation for its development into a global leading supplier which provides low-carbon and energy-saving integrated solutions.

### Information on the Vendor

The Vendor is a company incorporated under the laws of Cayman Islands with limited liability and an indirect non-wholly owned subsidiary of the Company. The Vendor is principally engaged in the development, manufacturing, marketing and sales of LED chips and LED packages for use in general indoor and outdoor lighting, specialty lighting, LCD backlighting and related industries.

Apart from the Disposal Group, the Vendor directly and indirectly holds the entire equity interest of Lattice Power Inc., Lattice Power (Hong Kong) Limited and Lattice (Changzhou) Co., Ltd\* (晶能光電(常州)有限公司), which are the holding company of LED products business.

### **Information on the Purchaser**

The Purchaser is a company incorporated under the laws of PRC with limited liability. The Purchaser is principally engaged in investment holding in LED industry.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, as at the date of this announcement, the Purchaser is held as to 61.54% by Mr. Wang Min, a director of the Vendor which is an indirect non-wholly owned subsidiary of the Company and the ultimate beneficial owner of the Purchaser, 23.08% by Nanchang Guanggu Photovoltaic Industrial Fund Partnership (Limited Partnership)\* (南昌光穀光電產業基金合夥企業(有限合夥)) whose general partner is Gongqingcheng Kangheda Investment Partnership (Limited Partnership)\* (共青城康和達投資合夥企業(有限合夥)) and whose general partner in turn is Nanchang Houde Capital Management Co., Ltd\* (南昌厚德資本管理有限公司), and 15.38% by Jiangxi Wenxin Industrial Co., Ltd\* (江西文信實業有限公司) whose equity interest is 90% held by Mr. Wang Gang and 10% by Shenzhen Chepu Industrial Holding Co., Ltd\* (深圳車僕實業控股有限公司). The Purchaser is therefore an associate of Mr. Wang Min and a connected person of the Company.

### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder exceed 25%, but all of the applicable percentage ratios are less than 75%, the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a major disposal of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Purchaser is held as to 61.54% by Mr. Wang Min, a director of the Vendor which is an indirect non-wholly owned subsidiary of the Company, and is therefore a connected person of the Company, the Sale and Purchase Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder.

In this connection, Opus Capital Limited has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder.

## **EGM**

An EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the relevant connected transaction must abstain from voting on the relevant resolution at the EGM. As disclosed in the section headed “Information on the Purchaser” above, Mr. Wang Min will be required to abstain from voting on the resolution approving the Disposal.

Save for Mr. Wang Min, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and therefore, no other Shareholder is required to abstain from voting at the EGM for the relevant resolution.

## **DESPATCH OF CIRCULAR**

A circular containing, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its recommendation in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder; and (iv) the notice of the EGM, is expected to be despatched to the Shareholders on or before 22 January 2021.

## GENERAL

Shareholders and potential investors should note that the Disposal is subject to certain Conditions and may or may not materialise. There is no assurance that the Disposal will proceed.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their professional adviser(s).

## DEFINITIONS

Unless the context otherwise requires, the terms used in this announcement shall have the following meanings:

“2018 Disposal”	the previous very substantial disposal of the Company in relation to a sale and purchase agreement dated 10 December 2018, as disclosed in the Company’s announcement dated 25 March 2019
“2019 Disposal”	the previous very substantial disposal of the Company in relation to 11 sale and purchase agreements dated 15 November 2019, as disclosed in the Company’s announcement dated 26 November 2019
“Asia Pacific Resources”	Asia Pacific Resources Development Investment Limited (亞太資源開發投資有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Shunfeng International Clean Energy Limited (順風國際清潔能源有限公司), a company incorporated under the laws of the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Disposal on or before the Long Stop Date, including the completion of the transfer registration in respect of the Target Interest in the name of the Purchaser in accordance with the terms and conditions of the Sale and Purchase Agreement
“Condition(s)”	the condition(s) precedent to Completion under the Sale and Purchase Agreement

“Consideration”	the consideration for the Disposal payable by the Purchaser to the Vendor under the Sale and Purchase Agreement, being RMB670 million
“connected person”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Disposal”	the disposal of the Target Interest by the Vendor to the Purchaser pursuant to the Sale and Purchase Agreement
“Disposal Group”	the Target Company and its subsidiaries
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board comprising Mr. Tao Wenquan, Mr. Zhao Yuwen and Mr. Kwong Wai Sun Wilson, being the independent non-executive Directors, which is formed to advise the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Opus Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, which has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) who are independent and have no interest in the transactions contemplated under the Sale and Purchase Agreement
“Jointly Managed Account”	the RMB bank account to be opened by the Vendor in the name of the Target Company for the purpose of receiving the Consideration which is jointly managed by the Vendor and the Purchaser

“LED Business”	the manufacturing business of LED, an energy efficient lighting device, which is operated via Lattice Power Corporation, a subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	30 June 2021 or a later date as agreed between the Parties
“Party(ies)”	the Vendor and the Purchaser
“Peace Link”	Peace Link Services Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and beneficially owned by Mr. Cheng Kin Ming, a substantial shareholder (as defined under the Listing Rules) of the Company
“percentage ratio”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Purchaser”	Nanchang Guanggu Group Limited* (南昌光穀集團有限公司), a company incorporated under the laws of the PRC with limited liability
“Renewable Energy Law”	the Renewable Energy Law of the PRC (中華人民共和國可再生能源法) (promulgated on 28 February 2005 and implemented on 1 January 2006), which outlines a regulatory framework to promote the development and utilisation of renewable energy and eventually achieve sustainable development in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 31 December 2020 entered into between the Vendor and the Purchaser in relation to the Disposal
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shunfeng Photovoltaic Holdings”	Shunfeng Photovoltaic Holdings Limited* (順風光電控股有限公司), a direct wholly-owned subsidiary of the Company

“Shunfeng Photovoltaic Investments”	Shunfeng Photovoltaic Investments (China) Company Limited* (順風光電投資(中國)有限公司), an indirect wholly owned subsidiary of the Company
“State Grid”	State Grid Corporation of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Target Company”	Lattice Power (Jiangxi) Co., Ltd* (晶能光電(江西)有限公司), a company established under the laws of the PRC with limited liability
“Target Interest”	100% of the equity interest in the Target Company, together with all the rights, benefits and obligations of a shareholder corresponding to such equity interest
“Vendor”	Lattice Power Corporation (晶能光電有限公司*), a company incorporated under the laws of Cayman Islands with limited liability and an indirect non-wholly owned subsidiary of the Company
“%”	per cent

By order of the Board  
**Shunfeng International Clean Energy Limited**  
**Wang Yu**  
*Chairman and Chief Executive Officer*

Hong Kong, 31 December 2020

*For the purpose of this announcement, translations of HK\$ into RMB or vice versa have been calculated by using an exchange rate of HK\$1.00 equal to RMB0.84. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.*

*As at the date of this announcement, the executive Directors are Mr. Wang Yu, Mr. Zhang Fubo, 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*